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ABSTRACT

Ten units on the basic knowledge and skills needed to manage a small business are provided in this curriculum guide designed for use with secondary and postsecondary students. Unit topics include forms of businesses, marketing, location, systems and records, promotion, pricing, human relations, financing a business, and effects of business decisions. At the beginning of each unit is a summary page containing a synopsis of the unit's content, student learning objectives, teaching strategies, teacher preparation required, mini-problems, and references. Following the summary page of each unit are teacher and student materials. The teacher materials provide guidelines for presentation of instructional materials and include lecture and discussion notes, suggestions for conducting class activities, and recommended questions to be asked by the teacher to confirm students' understanding. The student materials are in the form of information sheets, worksheets, case study materials, interview forms, and project instructions. A glossary of financial terms concludes the guide. (JH)

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VOLUME I

MINDING YOUR OWN SMALL BUSINESS
AN INTRODUCTORY CURRICULUM FOR SMALL BUSINESS MANAGEMENT

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Foremost among the people we thank are the field test teachers: Leo Giles, Denver Community College/North Campus, Denver, Colorado; Mary Ann Liscio, Ramapo Senior High School, Spring Valley, New York; Kathy Fortshoff, Liverpool High School, Liverpool, New York; and Alexa Knight, North Orange County Regional Occupational Program, Anaheim, California. Each of them spent many hours with us preparing for the field test, reporting on its progress, and suggesting revisions. Leo Giles in particular was selfless in sharing with us his time and knowledge of entrepreneurship; to a great extent, these materials bear his imprint.

Our thanks also go to the people who reviewed the materials for educational practicability and accuracy of business content. The business owners were Maria Coleman, Vice President of Art Ad Corporation, Boston, Massachusetts; Rita Richmond, owner of the Discovery Consignment Shop, Newton, Massachusetts; and Beverly Bentley, owner of Bentley Stationers, Concord, Massachusetts. We are especially grateful to Maria Coleman, whose sensitive and sensible perceptions of the special problems faced by women and minority entrepreneurs formed the basis for many of the "women and minority entrepreneurs" activities in Volume IV. Professor Robert Nelson of the Department of Vocational and Technical Education, University of Illinois at Urbana-Champaign, provided valuable suggestions for the revision of the simulation, "Location Decisions." In addition to the field test teachers, two other teachers also reviewed the materials: David Muehlbauer, South Mountain High School, Phoenix, Arizona; and Russell Brock, Bowling Green State University, Bowling Green, Ohio. George Solomon of the Small Business Administration, Washington, D.C., also contributed his time and expertise. All the reviewers were most helpful in offering confirmations and corrections of the materials.

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Nancy L. Holt
Acting Project Director

TABLE OF CONTENTS

	Teacher Page	Student Page
INTRODUCTION TO THE TEACHER	i	
UNIT I: WHAT IT'S ALL ABOUT	1	
A. Shipwrecked	3	5
B. Getting Down to Basics	7	13
C. Entrepreneurs as People	17	19
D. Student Interviews	29	31
E. Classroom Visitors	33	
UNIT II: FORMS OF BUSINESS	35	
A. Business Organization	38	41
B. Types of Business	45	51
C. Franchises	53	55
UNIT III: MARKETING	59	
A. Introduction to Marketing	62	65
B. Marketing Research	69	--
C. Marketing the Goods and Services	72	75
D. Identifying the Consumer	81	
Instructions to Teachers for Part D	84	85
E. Identifying Your Competition	87	89
UNIT IV: LOCATION	91	
A. Problem Solving	93	97
B. Overview of "Location Decisions: ---See Volume III---	99	
UNIT V: SYSTEMS AND RECORDS	101	
A. Administrative Systems and Records		
A1. Business Systems and Procedures	103	107
A2. Business Records	109	111, 115
B. Financial Systems and Records		
B1. Procedures for Recording Revenues from Sales	123	
B2. Recording Expenditures for the Business	127	
B3. Completing Forms for Revenues and Expenditures	129	139
C. Personnel Records	163	167

TABLE OF CONTENTS (CONT'D)

	Teacher Page	Student Page
UNIT VI: PROMOTION	179	
A. Introduction to Promotion and Advertising	181	185
B. Sales Promotion	193	197
C. Personal Selling and Public Relations	199	---
D. Creating a Promotional Campaign	202	205
UNIT VII: PRICING	213	
A. Pricing Factors	215	219
B. Pricing Policies	223	--
UNIT VIII: HUMAN RELATIONS	231	
A. Personal Satisfaction	233	239
B. Employee Satisfaction	247	249
UNIX IX: FINANCING A BUSINESS	253	
Instructor's Overview	256	
A. Preparing to Obtain a Loan	257	
B. Preparing Personal Information	259	263
C. Preparing Business Forms for a Loan Application		
C.1 Introduction	275	
C.2 Accountant Guest Speaker	277	
C.3 Preparing a Business Description	278	279
C.4 Sources and Application of Cash	281	285
C.5 Preparing a Balance Sheet	291	295
C.6 Income Statement and Projected Income Statement	303	307
C.7 Cash Flow Statement	315	319
C.8 Loan Officer Guest Speaker	331	---
UNIT X: EFFECTS OF BUSINESS DECISIONS	333	
A. Good and Bad Decisions	335	339
B. Ending a Business	345	349
C. Expanding a Business	351	355
APPENDIX: GLOSSARY OF FINANCIAL TERMS		357

INTRODUCTION TO THE TEACHER

PURPOSE OF THE CURRICULUM

"Minding Your Own Small Business" is intended as an introductory course for secondary and post-secondary students interested in beginning a small business venture, but who have had little exposure as yet to business or distributive education courses. The curriculum is designed to provide such students with an overview of the skill areas and business principles needed to start and operate a small business. The curriculum content and the case studies contained in these materials have been constructed to provide introductory students with a balanced picture of the many different types of businesses which students may eventually start, since many of them do not yet have clearly defined plans.

INTENDED OUTCOMES

Students completing "Minding Your Own Small Business" should acquire a strong orientation to (1) the basic requirements for running a small business in terms of business and personal skills, and (2) the types of courses they will need to extend their knowledge of specific skill areas to which they have been introduced. The curriculum has been designed to provide students with structured decision-making techniques essential to the day-by-day operation of a small business venture, where the owner must rely primarily on his or her judgment for the way in which the business should be run.

Each unit of the curriculum is prefaced by a statement of the learning objectives to be attained, which serve as a guide in assessing student performance throughout the course. If desired, the learning objectives may be used as guidelines for constructing tests or other evaluative instruments. Student homework projects are also intended to serve as a basis for assessing the extent to which students have accomplished the objectives of the curriculum.

TEACHER REQUIREMENTS

Although "Minding Your Own Small Business" provides virtually all of the teacher and student materials required to teach the course, it is highly recommended that instructors have a background in business education. Overall, a business background provides teachers with a storehouse of examples and descriptive material which are useful when additional explanation or illustration of points in the curriculum is called for. Prior knowledge of business subjects such as accounting, marketing, and business management will allow instructors to use the materials to their fullest.

ORGANIZATION OF THE CURRICULUM

"Minding Your Own Small Business" is part of a four-volume series on entrepreneurship.

Volume I, "Minding Your Own Small Business," is an introductory course.

Volume II, "Something Ventured, Something Gained," is an advanced course.

Volume III, "Location Decisions," is a simulation to be used in conjunction with Volumes I and II.

Volume IV, "Mini-Problems in Entrepreneurship," is a resource book of individual and class activities focussing on "basic skills," i.e., ethics, communication skills, problem solving, record keeping, and self-assessment, and on the special problems of women and minority entrepreneurs.

The units have been structured in a building block fashion: there is an informational continuity from unit to unit. It is therefore recommended that the units be taught in the order in which they appear.

The pages are numbered consecutively from beginning to end, with a roman numeral prefix indicating the unit, and a "T" or an "S" to distinguish teacher materials from student materials.

The volume entitled "Minding Your Own Small Business" contains the core curriculum materials including teacher pages and student pages. At the beginning of each unit is a summary page, containing:

- A synopsis of the unit's content;
- Student learning objectives;
- Teaching strategies for each part of the unit, e.g., case study, class discussion;
- Preparation required for each part of the unit, e.g., duplication of student materials, arrangements for a guest speaker;
- Mini-problems from Volume IV recommended for use with this unit; and
- References for further study.

11

Teacher materials include complete guidelines for presentation of instructional materials, including lecture and discussion notes, suggestions for conducting class activities, and recommended questions to confirm and extend students' understanding of the materials. They are arranged in numbered paragraphs for classroom use.

Student materials are in the form of information sheets, worksheets, case study materials, interview forms, project instructions, and others. Note-taking in class is required. One set of student materials, to be duplicated by the teacher in the number of copies needed, is placed directly following the teacher pages to which they correspond in the curriculum.

SUMMARY OF CURRICULUM CONTENT

"Minding Your Own Small Business" offers an overview of the knowledge and skills needed to manage a small business.

Unit I: What It's All About

The first unit focuses on the personal characteristics that are desirable for the owner/manager of a small business, culminating in student interviews and classroom visits of local entrepreneurs.

Unit II: Forms of Business

The second unit presents the different ways that businesses can be organized: partnership, corporation, and sole proprietorship; the different types of businesses: retail, wholesale, manufacture, service, or a combination of these; and a special section on franchises. The unit provides students with an overview of the formal options for business ventures and an understanding of the interrelationships among different kinds of businesses.

Unit III: Marketing

The third unit introduces students to the basic principles and techniques of marketing as they relate to the needs of a small business. These include the techniques of marketing research, identifying consumers and matching their needs with the products or services of a business, and identifying the competition. A student project is included to allow students to apply the principles of marketing to a specific case study.

Unit IV: Location

This unit is designed to help students identify the most advantageous location for various businesses through informed decision-making. It builds upon the preceding unit, reinforcing the marketing research strategies learned in Unit III and expanding upon problem solving techniques. The unit contains a structured approach to problem solving and the application of problem solving techniques to a full-scale simulation of the factors involved in choosing an appropriate location for three retail businesses. The simulation game materials are contained in Volume III.

Unit V: Systems and Records

The fifth unit provides students with technical knowledge and understanding of the mechanisms for documenting inventory, revenues and expenditures, and personnel records. The materials constitute a detailed guide for in-class instruction, with standard forms to be completed by students. The in-class lessons are reinforced by an additional case study to be done out of class.

Unit VI: Promotion

This unit presents techniques for selling goods and services in a small business: advertising, personal sales and sales promotion, and community relations. The material is tailored to the requirements and constraints of a small business operation. A student project component is provided to assist students in applying the principles of promotion to specific case study situations via the creation of a promotional campaign.

Unit VII: Pricing

Unit VII focuses on pricing strategies, policies, and considerations which entrepreneurs must be aware of in setting prices, and points out the impact of economic influences on small business pricing policies.

Unit VIII: Human Relations

The Human Relations unit addresses the requirements of small business owners in dealing with their own career-related needs and those of their employees, including hiring responsibilities, interpersonal relationships with employees, and personal characteristics which are essential to good management of a small business. The "Help Wanted" section of the local newspaper is used to identify and illustrate variation in job characteristics.

Unit IX: Financing A Business

Unit IX requires students to use the knowledge they have gained thus far to prepare loan application documents. When students complete the unit they will have a firm understanding of the major considerations in choosing a bank, talking with a loan officer, describing a potential business in detail, and completing the necessary forms to apply for a start-up business loan. The unit contains lessons for in-class use, complete with the necessary forms, and an out-of-class case problem to reinforce skills in business math and forms completion.

Unit X: Effects of Business Decisions

The final unit of the curriculum focuses on the relationship between business decisions and outcomes of these decisions. It analyzes businesses characterized by good and bad decisions and discusses how to end and how to expand a small business.

FIELD TEST AND REVIEW

These instructional materials on entrepreneurship are based on previous curriculum materials developed by Athena Corporation and Del Green Associates. After an initial review by business owners, secondary and post-secondary teachers, and the Small Business Administration, the original materials were revised by project staff and field tested.

"Minding Your Own Small Business" was taught at Liverpool High School, Liverpool, New York, and Ramapo Senior High School, Spring Valley, New York; as some of the activities were also included in the companion advanced curriculum ("Something Ventured, Something Gained"), the introductory curriculum can be said to have been partially tested at Denver Community College/North Campus, Denver, Colorado, and at the North Orange County Regional Occupational Program in Anaheim, California.

Given the small number of field test sites, results must necessarily be tentative. Nevertheless, the average learner gain in the experimental classes was 46.5% in the two high schools (36% and 57%) from pre-test to post-test. Due to administrative error post-tests were not given to students in one of the control classes; the learner gain in the other high school's control class was 28%. Findings would therefore seem to indicate significant learner gain from use of "Minding Your Own Small Business."

In addition to the careful examination of the curriculum by field test teachers, a thorough final review was also conducted by teachers, business owners, and representatives of the Small Business Administration. A number of their recommendations were incorporated into the final version of the materials.

UNIT I: WHAT IT'S ALL ABOUT

SUMMARY: The decision about how to plan and organize an enterprise for the production and distribution of goods and services is fundamental to the character of the society. One of these ways, entrepreneurship, is pervasive in American society. Students are introduced to the many aspects of small business that will be covered in the course. Interviews with local businesspeople focus on actual business experiences and entrepreneurs as people.

STUDENT LEARNING OBJECTIVES:

- Become familiar with course goals and own responsibilities.
- Use the glossary as an aid in employing correct business language.
- Identify traits and skills appropriate for entrepreneurs.
- Describe some of the opportunities and risks associated with entrepreneurship in American society.

TEACHING STRATEGIES:

Part A: Shipwrecked: case study

Part B: Getting Down to Basics: discussion, matching exercises

Part C: Entrepreneurs as People: discussion, case studies

Part D: Student Interviews: interviews, discussion

Part E: Classroom Visitors: interviews

MATERIALS PREPARATION:

Part A: Duplicate* student materials, "Shipwrecked."

Part B: Duplicate "Glossary," and "Exercises I and II."

Part C: Duplicate "Entrepreneurs as People," and "Eight Chicago Entrepreneurs."

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* Unless otherwise noted, duplicate one copy for each class member throughout this curriculum.

Part D: No preparation

Part E: Invite two to four businesspersons for a class discussion. (See Section E for further information)

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

1. "Bob Johnson's Story." The story focusses on Bob Johnson who owns a radio and tape recorder business, and his friend Sam, who owns a gas station, and describes what they have learned about race and business.

Other Mini-Problems:

4. "Spiral Notebooks." The problem calls for students to calculate two different profit figures for notebooks, at the regular price and the sale price.

8. "Choosing a Course." Students are asked to decide systematically which of two imaginary courses, both of which are attractive, they would sign up for.

11. "Ned Muller." Ned is torn between his loyalty to Rudy Painter, a longtime supplier to Ned's thermometer factory, and the attraction of lower prices from other suppliers.

14. "Qualifications." Students describe their qualifications, present and future, for three occupations.

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Mayer, Kurt. The First Two Years: Small Firm Growth and Survival Problems, Small Business Research Series No. 2, Washington, D.C.: SBA, 1961.

Metcalf, Wendell. Starting and Managing a Small Business of Your Own, the Starting and Managing Series, Volume I (3rd edition), Washington, D.C.: SBA, 1973.

PART A: SHIPWRECKED

1. Ask students for examples of ways a person might earn a living, and write the suggestions on the board. Point out that one way of thinking about these occupations is according to whether one works for someone else or works for oneself. Ask students to suggest ways in which one could work for oneself--you might want to list these on the board, too.

2. Introduce the term "entrepreneurship" (from the French work "entreprendre," meaning "to undertake") as a way to describe working for oneself. According to Webster's Dictionary, an entrepreneur is "one who organizes, manages, and assumes the risk of a business or enterprise."

3. Distribute "Shipwrecked" and explain to students that this is an exercise to help them look at the entrepreneur's lifestyle, working conditions, and skills necessary for being successful as the owner or manager of a small business.

4. Divide the class into small groups of three to five students. Ask each group to read "Shipwrecked" and arrive at group conclusions for each question. When each group reports its conclusions to the class, you can provide a framework for the discussion by stressing such major points as:

   - identification of goals
   - division of labor
   - principle of fair exchange
   - media of exchange
   - the role of recordkeeping
   - skills and personal traits

5. If students have trouble with particular concepts, try expanding the discussion by using as many of these probe questions as desirable.

   What does the group need together, and what do individuals need? Will each person provide for his or her own survival needs, or will the group work together to meet those needs? Is there a compromise approach? (Related to question 2)

If they choose to work together, how would they divide the responsibilities? Will group members assign or choose these "jobs"? (Question 3)

What are some ways of compensating people for the work they do? Introduce the ideas of barter and payment (in goods and services, or through a medium of exchange such as money), and ask students to suggest various media of exchange. (Question 4)

Would the groups need to keep records of who does what? If so, why? What information would they need to record, and what is the relationship between compensation, media of exchange, and a recordkeeping system? (Question 5)

6. Once the desert island question have been answered, students may have trouble understanding the analogy with their own communities. Point out that in the same ways in which they organized for survival on the island, so do communities organize for their survival: people in communities have common needs (such as food, shelter, clothing, child care, medical care). Usually these responsibilities are divided among community members, and specialization occurs. You might want to point out that anyone wanting to open a business in a community, probably would have to specialize in something he or she is good at doing and likes doing, and which is also something the community needs.

7. If students haven't grasped some of the other concepts illustrated in the exercise, be sure to emphasize them in closing. Point out the need for:

   - identification of goals
   - division of labor
   - principle of fair exchange
   - the role or recordkeeping
   - the skills and personal traits helpful to an entrepreneur

   (Questions 6, 7, and 8)

SHIPWRECKED

Your group has been shipwrecked on an uninhabited island with plenty of wildlife and vegetation, and a fresh-water spring. The temperature ranges from a high of 35°C (95°F) in the summer to a low of 3°C (37°F) in the winter (a temperate climate). There is a rainy season in the spring.

Discuss each question and decide on a group solution. At the end of the discussion time, report your conclusions to the class.

1. What tasks need to be done in order to survive? Rank order what needs to be done first, second, last, etc.

2. How will your group get these tasks done?

3. Will everyone have equal responsibility, or will some people have more responsibility than others? Why?

4. In return for getting tasks done, will there be compensation (payment)? If so, what would you use for compensation? If some people have more responsibility than others, will they receive more or equal compensation?

5. Would you need to keep any records? If so, what would you need records of?

6. What skills and personal traits would be helpful in order for people to meet the survival needs of the group and of themselves as individuals?

7. Once you have solved the problem of survival, what would you do next?

8. Consider the idea of a business or economic "climate" as it applies to your community.

    - What are the labor market needs? For example, is there high unemployment among young people, senior citizens, or men and women re-entering the work-force after a period of education or child-care?

    - What kinds of services does your community need and what kinds of businesses already exist to meet those needs?

- Would this "climate" affect you if you opened a business of your own?
- Would you ask other people to help you open a business (partners or friends, the local bank, a local businessperson, relatives)?

Imagine opening a small business and go back to see how you would answer questions 1 through 7.

PART B: GETTING DOWN TO BASICS

1. Ask students if there is anyone they know whom they consider to be an entrepreneur. How can they tell?

2. Have any of the students ever acted as entrepreneurs themselves, such as by starting a band, doing bike repairs or even baby-sitting? Try to find out how they started doing it and why, and what they liked or did not like about it. What did they receive from their services?

3. Distribute "Entrepreneurship: Self-Employment as an Occupation" and discuss along the following lines:

    - Point out that entrepreneurship is widespread in the American economy: many businesses which are currently large corporations started as small businesses begun by one energetic individual (such as Colonel Sanders' Kentucky Fried Chicken, or Ray Kroc's McDonalds). Many large department stores began as small stores or even as peddler's carts.

    - The exercise points out that small businesses constitute the overwhelming majority of business enterprises. Teachers might want to ask students why they think this is so. The local office of the Small Business Administration may have details about your area or community.

4. Once students have grasped the concept of entrepreneurship and some of its advantages and disadvantages, point out that business, like any occupation, has a "language" of its own. Learning the language is the first tool of the entrepreneur. Distribute the glossary, emphasizing that it will be used as a reference throughout the course, and that students can add to their copies any business terms they encounter which are not already included.

5. Distribute Exercises I and II (matching activities on business terminology) and assign them as homework, following discussion or clarification of the glossary.

ANSWERS TO EXERCISE 1

11 A record of a business transaction or "deal."
ACCOUNT

7 A current liability.
ACCOUNTS PAYABLE

3 Any form of paid, non-personal promotion that has an identifiable sponsor and that usually communicates with large numbers of people at the same time.
ADVERTISING

9 Anything of worth that is owned.
ASSET

14 A list of business assets on one side and a list of liabilities on the other.
BALANCE SHEET

4 That point when total costs equal total revenue.
BREAK-EVEN

12 Available money to invest or the total or accumulated assets available for production.
CAPITAL

8 Money in hand or readily available.
CASH

5 An agreement regarding mutual responsibilities between two or more parties.
CONTRACT

2 That which is owed.
DEBT

13 Failure to pay a debt or meet an obligation.
DEFAULT

1 The amount of money that can be spent on nonessentials.
DISCRETIONARY INCOME

10 To steal or take by fraud another's property for one's own use.
EMBEZZLEMENT

6 A person who organizes and manages a business.
ENTREPRENEUR

16 Obtaining money resources.
FINANCING

15 Those costs which don't vary from one period to the next.
FIXED EXPENSES.

ANSWERS TO EXERCISE 2

13 The difference between sales revenue and cost of goods sold.
GROSS MARGIN

4 The cost of borrowing money.
INTEREST

10 A list of present or current assets.
INVENTORY

7 The art of conducting and supervising a business.
MANAGEMENT

3 A method of solving business problems.
MARKET RESEARCH

11 Goods bought and sold in a business.
MERCHANDISE

6 The difference between gross margin and other expenses.
NET PROFIT OR LOSS

16 What it costs you to do business.
OPERATING EXPENSES

2 The cost of a product to the customer.
PRICE

1 A group of products that have similar uses and physical characteristics.
PRODUCT LINE

9 Financial gain; returns over expenditures.
PROFIT

12 All the communications between a businessperson and her or his present and prospective customers.
PROMOTION

17 Ready for payment.
RECEIVABLE

14 Selling directly to the consumer.
RETAIL

8 A retail business which deals in activities for the benefit of others.
SERVICE BUSINESS

5 A particular segment of the total market of a product toward which the marketing effort is aimed.
TARGET MARKET

15 An amount or quantity of business.
VOLUME

INFORMATION SHEET

ENTREPRENEURSHIP: SELF-EMPLOYMENT AS AN OCCUPATION

An entrepreneur is someone who owns and operates his/her own business. For example, many grocery stores are owned by one person, or a family. Another example is boutiques (specialty clothing stores) which are usually small and owned and operated by one person.

For many occupations, there is a related opportunity for entrepreneurship. Below are examples of only a few:

Occupations	Opportunity for Entrepreneurship
Salesperson in a clothing store	Owner of clothing store
Account executive for advertising firm	Owner of advertising agency
Manager of supermarket	Owner of grocery store
Real estate agent	Owner of real estate agency
Flower arranger at florist shop	Owner of florist shop
Service station attendant	Owner of automobile repair shop
Tool and die maker	Owner of metal parts factory

THE PERVASIVENESS OF SMALL BUSINESS

Every year over 250,000 new businesses are formed in the United States. By far the greatest number of these new ventures are small businesses and will probably remain so over their lifetimes.

While small businesses* account for only a minority of the sales, assets (equipment, cash, etc.), and profits of American business, they represent the overwhelming majority of business enterprises.** 88% of all proprietorships, 66% of all partnerships, and 38% of all corporations are small firms with gross receipts (total sales without considering expenses and taxes) under $50,000. Thus, not only is the typical enterprise a small one, but it is also typically self-owned. In fact, of the twelve million businesses filing with the Internal Revenue Service in 1969, over eight million (69%) were both proprietorships and small (i.e., sales less than $50,000). Entrepreneurship is thus an important element in the careers of many Americans. At least eight million people, 10% of the work force, are owners of small businesses, and a good many more work in such small businesses.

What are some of the characteristics of this typical enterprise, the small proprietorship? For one thing, small proprietorships clearly dominate several sectors of the economy. They represent most of the firms in agriculture, forestry and fishing, most service firms and just over half of the firms in wholesale and retail trade. Fewer small firms are formed in manufacturing, construction, mining and finance. It is not hard to understand why the small proprietorships are concentrated in these few selected areas. Excluding agriculture, these industries typically require relatively little money to start. Money is needed for buying goods and for salaries, but the amounts are less than required to buy equipment and build factories for manufacturing. In addition, technical skills needed in service or trade are more easily acquired than the engineering skills of a manufacturer or the financial skills needed in banking.

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* Definitions of "small business" vary considerably. For example, in terms of gross receipts, the definitions vary from $50,000 to $1 million.

** The following data, except where otherwise noted, is derived from U. S. Bureau of the Census, Statistical Abstract of the United States: 1972.

EXERCISE 1

Definitions

____ A record of a business transaction or "deal."

____ A current liability.

____ Any form of paid, non-personal promotion that has an identifiable sponsor and that usually communicates with large numbers of people at the same time.

____ Anything of worth that is owned.

____ A list of business assets on one side and a list of liabilities on the other.

____ That point when total costs equal total revenue.

____ Available money to invest or the total of accumulated assets available for production.

____ Money in hand or readily available.

____ An agreement regarding mutual responsibilities between two or more parties.

____ That which is owed.

____ Failure to pay a debt or meet an obligation.

____ The amount of money that can be spent on nonessentials.

____ To steal or take by fraud another's property for one's own use.

____ A person who organizes and manages a business.

____ Obtaining money resources.

____ Those costs which don't vary from one period to the next.

Business Terms

1. Discretionary income
2. Debt
3. Advertising
4. Break-even
5. Contract
6. Entrepreneur
7. Accounts Payable
8. Cash
9. Asset
10. Embezzlement
11. Account
12. Capital
13. Default
14. Balance sheet
15. Fixed expenses
16. Financing

EXERCISE 2

Definitions

____ The difference between sales revenue and cost of goods sold.

____ The cost of borrowing money.

____ A list of present or current assets.

____ The art of conducting and supervising a business.

____ A method of solving business problems.

____ Goods bought and sold in a business.

____ The difference between gross margin and other expenses.

____ What it costs you to do business.

____ The cost of a product to the customer.

____ A group of products that have similar uses and physical characteristics.

____ Financial gain; returns over expenditures.

____ All the communications between a businessperson and her or his present and prospective customers.

____ Ready for payment.

____ Selling directly to the consumer.

____ A retail business which deals in activities for the benefit of others.

____ A particular segment of the total market of a product toward which the marketing effort is aimed.

____ An amount or quantity of business.

Business Terms

1. Product line
2. Price
3. Market research
4. Interest
5. Target market
6. Net profit or loss
7. Management
8. Service business
9. Profit
10. Inventory
11. Merchandise
12. Promotion
13. Gross margin
14. Retail
15. Volume
16. Operating costs
17. Receivable

PART C: ENTREPRENEURS AS PEOPLE

1. Explain to students that entrepreneurs share ambitions, preferences and certain personal traits. Entrepreneurship satisfies these ambitions and preferences and requires certain personal traits (e.g., independence).

2. Distribute "Entrepreneurs as People." Ask students to read it. Emphasize that:

   - The most decisive characteristics of entrepreneurs are: willingness to take risks and desire to be "in charge."

   - Entrepreneurship involves certain occupational characteristics, one of which is that the entrepreneur is frequently the only person involved in the business.

3. Ask students how they would like being the only person in a business location. Would they get lonely? Would they like the fact that they could work alone?

4. Another characteristic of entrepreneurship is that responsibility for decision making lies with the individual. The only response to an action or decision is whether a customer buys the product or service. Sometimes it may be difficult to know whether you are successful, especially at the beginning. In larger businesses, responsibility for decision making is usually shared: small businesses may have one or a few managers, while large corporations are governed by large boards of corporate directors or trustees, and to some extent must be answerable to stockholders. (The ultimate test of the soundness of a decision is, however, the same.) This does not mean that entrepreneurs cannot seek advice or work with other people. However, the typical structure of a small business has one or few managers and decision makers. Other employees operate at the level of an assistant salesperson, with few positions in between.

5. Tell students that throughout the case studies they are about to read they should keep in mind the following questions:

   - What does it take?

   - Do I have what it takes?

   - What options are available to me?

   - What do I want?

- How do I get what I want?
- If I try and fail, what are the consequences?

6. Distribute "Eight Chicago Entrepreneurs." Decide ahead of time how many case studies your students should read, and which ones. Define entrepreneur again. Ask students to read each case study with the following in mind:
   - Why the people went into small business
   - What their expectations are
   - Advice they give
   - Any useful information the students might apply when running their own businesses in the simulation game

INFORMATION SHEET

ENTREPRENEURS AS PEOPLE

In many respects, the small business owner represents what people around the world think of as the typical American. What we sometimes think of as basic American values--individualism, initiative, the pioneering spirit, the importance of self-expression, independence, persistence, inventiveness, hard work, free enterprise--are expressed in the careers of small business owners. Opportunity, the lure for hundreds of thousands of immigrants throughout the history of the United States, was often realized in the form of self-employment. Many a great fortune was built on a small beginning.

The chance for any individual to succeed on his or her own efforts still attracts many people. Even though there are many large multinational corporations in our economy, great success has been achieved by small business owners in recent years.

Why is entrepreneurship so attractive? Entrepreneurship is seen as a chance to gain special rewards. These rewards include independence, a potentially high income, personal growth, being in charge, trying one's own ideas, choosing one's own work hours, and so forth.

Special responsibilities also fall to the entrepreneur as the ultimate decision maker in the business, who enjoys or suffers the results of his or her own decisions. For example, in a cash squeeze, the business owner will pay employees first and delay paying himself or herself.

Many people begin their own businesses but fewer numbers of them succeed. What distinguishes the successful entrepreneur from the unsuccessful one? Successful entrepreneurs are characterized by the following traits:

- technical knowledge of how to operate a business
- ability to absorb setbacks
- patience to wait until the business really "takes off"
- ambition, energy and drive
- independence
- ability to take full responsibility for decisions
- realistic expectations about the hard work required
- persistence
- ability to communicate
- resources to outlast lack of income

As one small business owner said, loneliness is part of owning your own firm. There is no one to congratulate you for good decisions, to prevent you from making poor ones or to assume responsibility for you. But then, there is nobody to tell you what to do if you want to "do your own thing."

INTERVIEWS WITH EIGHT CHICAGO ENTREPRENEURS

By: Marcia Slater Johnston

JIM ERRANT

Jim Errant, 26, owns the Chicago Claim Company--a medium priced restaurant on North Clark Street. He's had the business a year and a half.

I started by working at a restaurant in Denver. I waited on tables, cooked, tended bar, and picked up the nuts and bolts in the business. Later, here in Chicago, I spent some time at R.J. Grunt's learning the ropes.

Lots of people think if they're good cooks--and good eaters--they can open a restaurant. I wish it were that simple. You've got to know every area of the food business--purchasing, advertising, cooking, mixing drinks, and dealing with customers.

All sorts of young men and women come to me and say, "Hey, I want to learn about running a restaurant from you so I can open my own." I tell them, "That's okay with me, I'll have you cook, bartend, wait on tables, bus...." And they say, "Man, you don't understand. I want to learn how to manage." Well, you've got to know a business from the ground up before you can run it.

I enjoy the freedom of being in business. I like being a boss. I have forty-two employees, and it gives me a good feeling when they come to me for advice.

It would be rough to work for somebody else. But by no means do I think that could never happen. I'm only twenty-six years old, and my career could take many turns. I hope that if I did have to work for someone else, I could pretty much call my own shots.

MARJORIE KAIZ

Marge Kaiz, 32, owns Famous Stores International, Ltd., a shopping service for businesses. She started her business two years ago.

I got the idea for Famous Stores a few Christmases back when my boss gave me--and the six executives I worked with--bottles of whiskey as gifts. It was an okay gift, but I would have preferred something that showed a bit more imagination. I think most people are disappointed with the business gifts they get.

I toyed with the idea of starting a business to help corporation executives come up with unusual, customized Christmas gifts. But it needed an additional dimension. Then my father told me how excited he was with a present from Bergdorf Goodman. And it hit me. My service would specialize in selecting gifts from famous stores.

Going into my own business has satisfied my need to be creative and independent. In a practical sense, it has given me the flexibility I need to take care of my young child. To me, being self-employed is the only way to go. If you've got a certain emotional make-up, you resent every dime you're making for someone else.

Still, it's not all roses. An employed person has only one terror--being fired. As a business owner I have many terrors.

JOHN SWAIN

John Swain, 37, owns Swain Drug Company on Chicago's South Side. He has had his business for two years.

I feel anyone wanting to start a business should set a time limit for when he wants to get out from under and go on his own. In the meantime, he should find out as much as he can about profit, volume, mark-up, cash flow, personnel, advertising, and accounting.

Having your own business doesn't take any more time than working for a big company. When you work for a company, they feel your life is their life, anyway. So you may as well do it for yourself. I never mentally leave my business. I'm always thinking about it. Because if I don't make things happen in the business, they're not going to happen.

I'm black and one of the biggest kicks I get out of my business is giving minority folks good jobs. I guess another plus to having the company is that my net worth has improved. My income is less, though, because I put all I can back in the business.

GORDON SEGAL

Gordon Segal, 36, owns the Crate and Barrel. He started his first store twelve years ago in Old Town and now has stores in the Plaza Del Lago, Oak Brook, and Hawthorne Shopping Centers. He has two other stores in Cambridge, Massachusetts.

To start your own business you've got to be crazy. But I guess if there's a method to your madness, you'll do all right.

I began my business because I saw a specific void in the market. People were traveling to Europe in the early sixties and became familiar with European merchandise. Yet no store in Chicago stocked any line of inexpensive, good European cookware.

We opened on Wells Street in Old Town. Old Town was coming into its own in those days, but the rents were still cheap. Wells Street was the main drag, and there was always a lot of traffic along it.

Our name came quite by chance. We didn't have much money to fix up the store, so we turned over empty crates to use for display and sold many items out of the barrels they came in. Someone suggested we call the shop "Crate and Barrel."

It takes an awful lot of money to start a retail store. I'd estimate that you'd need maybe $100,000 to $300,000 to open one today. That includes money for inventory, decorating, and cash on hand. The difficulty with a business is it's non-liquid. Depending on the economic conditions, you could wind up selling a business for less than it's actually worth. In the retail business you may find yourself always "cash poor." The business may bring in a good living, but as you become more successful, you'll have to put your profits back into the business to replace inventory.

EDWARD KLINENBERG

Edward Klinenberg, 32, owns Precise Communications, a Chicago firm specializing in marketing and communications. He started his business six years ago.

The time was right for me to start my own business. I had a wife who worked, no kids, no responsibilities, and some capital. I was working for a small advertising agency, and I left on very good terms. I didn't take any accounts with me, so there were no hard feelings.

A business like mine can begin without much overhead. I think my major investment was an electric typewriter. I put down a deposit for a phone, bought a couple of file cabinets, and traded professional services for office space.

When I opened, I sent announcements to everyone I knew--and I mean everyone. People don't call you right away, but they put you in the backs of their minds and call you later. I also sent out a newsletter--Precisely Stated--to business acquaintances I thought might be clients some time.

Any business--I don't care what it is--is 99.9 percent selling. If you can't sell you won't make money.

WILLIAM VAN STRAATEN

William van Straaten, 36, owns van Straaten Gallery on Michigan Avenue. He opened the gallery--which specializes in signed prints and art posters--five years ago.

When I first thought of opening a gallery, I went around and talked to people in the art community. I asked them what it would take to open a gallery. It was great. The more people I talked to the more ideas I got. You never should be shy about asking other business owners for help. Not everyone's going to be nice about sharing ideas. But most sophisticated people feel "the more the merrier." Competition is healthy. And besides, successful entrepreneurs love to talk about their successes.

I never comprehended the time running a business took. You have to be willing to put in a seven-day week. It gets lonely. There's no one to turn to. The problems are all yours--the buck stops at your desk.

I had some experience in sales and that helped me in the business. But many of the nitty gritty things I had to pick up on the job. Business schools don't teach you how to wrap packages. And that's an important part of the retail business.

My advice to anyone contemplating going into business--especially a retail business--is to be flexible. Flow with the market trends. Don't stock what you think customers ought to have. Stick to your standards and tastes but don't blame the customer if your stuff doesn't go over. I get tired of hearing owners who fail say, "Chicago wasn't ready for this."

The gallery is a great source of pride to me. Still, I'll always have to keep working to make my business grow. I don't feel I'll ever be able to sit back, put my feet up and say, "I've done it."

BILL REDHED

Bill Redhed, 46, and his partner, Duke Nathaus, own Somebody Else's Troubles, which offers food, drink, and folk music on Lincoln Avenue. Somebody Else's Troubles has been open almost a year.

I had always been interested in folk music and had friends like folk singers Ed and Fred Holstein. Duke and I had thought about opening a place like this for a long time, and last winter Earl Pioke--owner of the Earl of Old Town--saw this storefront for rent. Duke and I had some money, and we decided to try it. Ed and Fred came in with us as sort of spiritual partners--they didn't invest any money but they invested know-how and interest.

The location seemed ideal. It's at the north end of what seems to be a burgeoning area for live music. There are now ten places around here offering talent. I think there's more live entertainment around here than in any other area of the city. And all that competition generates increased traffic into the neighborhood.

Our name came from an album of Steve Goodman's. He's helped us out here from time to time and so has Bonnie Koloc. The great thing about doing this is that I'm exactly where I want to be and working with people I like.

Not that there aren't problems. Owning a business always puts you on the periphery of anxiety. The partnership has worked out well. But working together has meant relating to each other a new way.

Mostly, I'm happy with the business. Four times a week I clean up. I actually enjoy doing it because it's my place.

ELIZABETH HONESTY

Elizabeth Honesty owns the Write-On Currency Exchange on Chicago's West Side. She opened her business four years ago.

I had worked in currency exchanges for twenty-five years, and I was determined to have one of my own someday. In the beginning I had difficulty getting enough capital. I think banks were reluctant to help me because I'm a black women. But I needed financial assistance. I didn't have enough money on my own.

Crime is a problem if you own a business in my community. It's the biggest difficulty I have with the exchange. Customers get ripped off as they leave. I've had to spend a lot of extra money on security.

I don't want to lose my business, so I've got to work hard to make it. To tell you the truth, I thought I'd be making more than I am. I guess I'm breaking even. But I'm happy. I'd be lying if I said there wasn't anything negative about owning a business.

I wouldn't want to have to work for anyone else again. Go back to where I started from? No way. I'm my own boss. I've accomplished something. I've actually made my dreams come true. To me owning your own business is just...well, it's just a beautiful, beautiful thing.

Adopted from Minding Your Own Small Business, the Athena Corporation, Bethesda, Maryland, 1976, under Contract No. OEC-0-74-9030 for the Curriculum Branch, Bureau of Occupational and Adult Education, USOE/DHEW.

PART D: STUDENT INTERVIEWS

1. Before sending students out on interviews, outline the basic objectives to them:

   - that in order for students to gain a better understanding of the nature of entrepreneurship, they are going to interview people who are actually doing it;

   - to test out the ideas gained from "Entrepreneurs as People" and "Eight Chicago Entrepreneurs" against the real-life experience of members of their own communities.

2. Students can interview entrepreneurs in pairs or individually, but be sure to arrange the interviews ahead of time or have students responsible for arranging them. Students should conduct the interviews at the business owners' convenience.

3. Explain basic interview and field study techniques: students should introduce themselves, explain the reason for the interview and how the material will be used. If business owners are unwilling to answer any of the questions, students should not pursue the question. Responses should be recorded on the interview form. When the interview is completed, students should thank the owners.

4. After the interviews, discuss the students' experiences in class:

   a. Have students give results of their interviews.

   b. Ask such questions as: Did most of the entrepreneurs have previous job experiences which helped them in starting their own business? What types of rewards did most of the interviewees identify? What types of disadvantages?

   c. To synthesize learning from the activities in this unit, have the class generate a list of the pros and cons of entrepreneurship.

   d. Suggest again that there are many advantages and disadvantages to operating one's own business. Much of its success and satisfaction depends upon the specific interests, abilities and values of the individual.

INTERVIEW FORM FOR A COMMUNITY BUSINESSPERSON

Business:______________________ Size (number of employees):__________

1. How long have you been in business for yourself?__________

2. When did you decide to go into your own business?__________

3. Why?__________

4. Did you hold any jobs previously which you feel prepared you well for starting your own business? If yes, what were they?

5. What kind of formal education and training did you have prior to starting/acquiring your own business?

6. Did you have difficulty in obtaining money to start your own business?

7. What advice would you give young people who want to go into business for themselves about how to acquire enough money to be able to do so?

8. What did you enjoy most about being in business for yourself?__________

44

9. What do you enjoy least about being in business for yourself?

10. Would you work shorter hours if you did not have your own business?

11. How do you spend your time when you are not working?

PART E: CLASSROOM VISITORS

1. Ahead of time, invite two to four community businesspersons for a classroom discussion. Since people who are personally known to you or to students are most likely to follow through on their agreement to visit the class, you and students should pool suggestions for people to invite. For additional suggestions, try the Chamber of Commerce, Rotary, Kiwanis, League of Women Voters, or Lions. You may wish to invite one or two more people than you would normally want to speak, in case of last minute cancellations. Each businessperson should be invited by the person who knows him or her, and a confirmation call to the visitors should be made a few days before they are scheduled to speak.

2. Try for as much variety as possible:

   - service, retail, manufacturing businesses
   - male and female entrepreneurs
   - entrepreneurs from a variety of ethnic groups
   - different ages and lengths of entrepreneurship experience

3. The day before the visitors come, have students develop a list of questions they would like to hear the visitors discuss. The interview form in Part D of this unit can be used, or students may want to use questions such as:

   - What is your background?
   - Why did you go into business for yourself?
   - Why did you choose your particular business?
   - How much time did you spend planning your business before you opened?
   - What kinds of people and organizations did you ask advice from before you opened?
   - How important is experience for owning your own business? What kind of experience was the most valuable to you?
   - How did you decide on your particular location? How important is location?
   - How important is advertising for your business? What kind of advertising do you do?

- Who are your customers? How do you select your inventory or services to appeal to them?
- Who keeps your records? Why?
- How many people do you employ?
- What particular problems do you have in your business? (employee, customer, location, crime, etc.)
- As you see them, what are the advantages to owning your own business? The disadvantages?
- If you could do it all over again, would you choose again to own your own business? Why?

UNIT II: FORMS OF BUSINESS

SUMMARY:

Most businesses in the United States are organized as one of three legal forms: the sole proprietorship, the partnership, and the corporation.

Business functions to satisfy consumer's demands for goods and services, along a full continuum from producing raw materials, to manufacturing, to wholesale operations, to retail sale to the consumer. Small businesses exist at every step, but are more frequently found at the last one.

At the retail level small businesses can now consider the franchising alternative as one method of gaining the benefits of a large operation while running their own business.

STUDENT LEARNING OBJECTIVES:

- Define and compare the three most common organizational forms (sole proprietorship, partnership, corporation).
- Trace the paths of distribution for different types of products.
- List several ways in which a wholesaler can assist the entrepreneur.
- Explain the concept of franchising, including some of its advantages and disadvantages.

TEACHING STRATEGIES:

Part A: Business Organization: information sheet, discussion, case study

Part B: Types of Businesses: information and work sheets, class discussion

Part C: Franchise: information sheet, interviews, discussion

MATERIALS PREPARATION:

Part A: Duplicate the Information Sheet, "Comparing Legal Forms for a Business," and the Case Study, "Crossroads."

Optional: arrange for a lawyer specializing in small business law to speak to the class concerning choosing a legal form for the business and other situations in which a lawyer's help is advisable.

Part B: Duplicate the Information Sheet, "The Elements of Distribution," and the Worksheet, "Capital, Labor, and Knowledge-Intense Businesses."

Part C: Duplicate the Information Sheet, "Franchising," and the Worksheet, "Advantages and Disadvantages of Franchising."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

9. "D. Blackwell." Half the students decide how many people work for Denise Blackwell and what her salary is, while the other half does the same for him.

Other Mini-Problems

3. "Employee or Partner." The problem calls for students to choose between being an employee or a partner in a business; to do this, they must identify what they need to know before they can make a decision.

7. "Line Drawing." A student attempts to describe a line drawing in words well enough for other students to draw it accurately.

38. "Printing and Bookkeeping." Students calculate savings for purchases in bulk, factor in fixed monthly expenses, and decide if it is more economical to use a large room for storage or for an income-generating press.

40. "A New Day." The owners of a successful career counselling business must decide if they should continue to keep all the profits as a return on their investment, or if they should set up a profit-sharing plan for all employees.

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PART A: BUSINESS ORGANIZATION

1. Define the three basic legal forms of businesses.

   - A sole proprietorship is a business owned by one person.

   - A general partnership is a legal business relationship in which two or more individuals share responsibilities, resources, and profits equally.

     A limited partnership is a legal business relationship in which, according to a written agreement, some owners have limited liability for business debts and are not involved in day-to-day operation. (They are sometimes called "silent partners.")

   - A corporation is a legal business relationship in which a group of persons join to create an entity treated by law as a separate individual. As an individual, the corporation, through its officers, makes contracts, conducts business activities, and assumes responsibility for debts.

2. Distribute the student information sheet, "Comparing Legal Forms for a Business." Allow students time to become familiar with the information.

3. To introduce the first section of the information sheets, "Human Resources," point out that as the organization grows and is more complex the organizational structure must be defined in more detail. There are advantages and disadvantages for each type. For example, it is easier to attract qualified personnel to work for a corporation because of its ability to pay higher salaries and opportunities for advancement, their presence is also a fixed expense that forces the entrepreneur to maintain a higher business volume to support them.

4. To explain the second section of the information sheets, "Initial Funding," mention that financing a business will be fully explored in Unit IX. The legal form of the business, particularly as it relates to liability, will directly affect their ability to raise capital to start or to expand their businesses. For example, a wealthy private investor will be hesitant to join in an enterprise in which he or she can be held liable for all debts.

5. The third section, "Government Regulation," needs to be checked in each state in which the entrepreneur operates. The fourth section deals with the key issues of potential. Taxes are often the most important consideration in choosing a business form. For example, while a well-known problem of corporations is "double taxation" (of corporation profits and shareholders' dividends), a specific sub-category, "subchapter S corporation," avoids double taxation while preserving the limited liability so attractive to corporations.

> "There are other less common forms of legal organization, such as...the business trust, the partnership association, and the joint stock company, available to the small business. Although most businesses are organized as a sole proprietorship, partnership, or corporation, all forms of legal organization should be discussed with a competent attorney before any decision regarding which form to select is made. The attorney will need to know as much about the business and its owner(s) as possible, including the personal financial position of the owner(s), so that a sound recommendation can be made."[1]

Profits distributed as noted in the chart, are an important source of growth capital. The larger the business and greater the profit, the greater the potential for growth. Students should be reminded that profits reinvested in a business may appear to be interest-free loans but are actually capital. As such, they should themselves earn profits.

6. Distribute the case study, "Crossroads," to students in small groups. Allow them time to agree on answers to the four questions.

   Points to highlight:

   - Ms. Garcia may be the key to Mr. Lowenthal's business success. He should first check her references thoroughly. Next, her commitment to the business should be supported by formal recognition of her importance. This makes the first choice a poor one.

   - A general partnership would strengthen the management of the business. The "articles of partnership" should cover five areas, for the benefit of both partners:

     > "(1) divisions of profit or loss, (2) compensations to each partner, (3) distribution of assets in the event of dissolution, (4) duration of partnership, and (5) duties of each partner."[2]

   - Incorporating may be the best choice here. Capital, in addition to Ms. Garcia's, would allow faster expansion and fuller use of the talents of both partners.

     Disadvantages: start-up costs, sharing management decisions, double taxation, more paperwork.

7. Optional additional exercise: Invite a lawyer experienced in small business law to speak to the class about his or her experiences with

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[1] Nelson and Leach, p. 38.

[2] Nelson, p. 41.

choosing an appropriate legal form for small businesses of different types. With students, prepare questions in advance. You may want the lawyer to cover other areas in which small businesses benefit from legal advice, as in local zoning laws or examining a lease.

8. Invite an accountant experienced in small business accounts to speak to the class about the costs and special problems of different forms of businesses. The accountant may also cover other areas, such as taxes, in the same class period.

COMPARING LEGAL FORMS FOR A BUSINESS

	HUMAN RESOURCES			INITIAL FUNDING		
	Management Control	Personnel and Expertise	Continuity, Transferability	Organizational Requirements and Costs	Ability to Raise Capital	Liability for Losses/Debts
SOLE PROPRIETORSHIP	One owner in total control	Depends mainly on owner's skills; hard to obtain quality employees	Ends on death of owner; free to sell or transfer	Costs lowest; (filing fee if under name other than owner's)	Limited: all equity (funding) must come from proprieter; loans based on strengths of individual	Owner liable for all debts
PARTNERSHIP general or (limited)	Divided among two or more partners; decisions by majority or by pre-established agreement; (limited partner can not manage)	Depends mainly on partners' skills; hard to find suitable partners or employees	Ends on death of partner (unless agreement provides otherwise); transfer conditions vary with agreement	Costs low; General: agreement optional but recommended; (Limited: agreement stating liabilites and responsibilities of each partner required	Limited to resources of partners; loans based on strengths of partners	Partners liable for all debts (Limited partner has restricted liability and involvement, as per agreement)
CORPORATION	Corporation acts as one person, but board of directors (influenced by votes of shareholders) hold legal, formal control; working control by those who manage day-to-day	Broad-based; allows for flexible management; easier to secure quality personnel with broad expertise	Continues with overlapping management; most flexible in transfer of "interest" (e.g., ownership) from one shareholder to another	Costs highest; legal forms, documents, and fees required	Greatest equity potential: can sell new stock; loans based on corporate financial strength and expertise, thus larger borrowing base	Corporation liable for debts (i.e., shareholders are liable only for amount invested, but if personal guarantees were given they are personally liable for more)

COMPARING LEGAL FORMS FOR A BUSINESS -- PAGE 2

	GOVERNMENT REGULATION	REVENUE			OTHER CONSIDERATIONS*	FOR MY BUSINESS	
		Taxes	Profits	Growth Potential		Key Advantages	Key Disadvantages
SOLE PROPRIETORSHIP	Little; few records needed with minimum formal regulation (possibly a license, license fee and state tax)	Taxed as individual (through personal income tax)	All go to owner	Limited options: reinvest profits, obtain loan on credit of owner			
PARTNERSHIP	Limited; few records needed with minimum formal regulation; should have "articles of partnership" drawn up	Partners pay taxes as if in business as individuals (through personal income tax	Divided among partners	Limited options: reinvest profits, obtain loans on credit of owners			
CORPORATION	Greatest; extensive record-keeping required; differs from state to state, but includes "articles of incorporation," by-laws, initial tax and filing fees, and shareholders' meetings	Corporation as entity pays taxes, and shareholders pay taxes on dividends as income (double taxation)	Retained in corporation and shareholders receive dividends	More options: reinvest profits (at discretion of board of directors); sell additional shares; obtain loans on corporate credit			

This area is often the most complex and important. It focuses on the concept of taxable entity. Discuss it with your lawyer.

*These might include optimal starting size, managerial expertise required, etc.

IN-CLASS CASE STUDY

CROSSROADS

Milton Lowenthal is a designer who has been operating a small manufacturing business, Milo Products, in central Pennsylvania. His products, a line of pre-fabricated closets and storage units, appeal to architects who specify them in plans for customized housing developments, schools, and office buildings. The personalized service he provides architects and builders makes his storage units especially desirable and orders are coming in faster than he can fill them.

However, he is not pleased with the production side of the business. His production manager, Ray Harris, hasn't been getting the orders out on time. Last month two builders complained that the cabinets they received were not up to Milo's usual standards. He checked the complaints out and found that some cabinets were delivered roughly sanded with only one coat of varnish. Mr. Lowenthal feels that he cannot oversee production as well as design and sell the products. He discusses the problems with the foreman. Angry at the criticism, Ray threatens to quit.

Jo Garcia, whom he met at a National Home Show where he had a booth, impressed him with her knowledge, energy, experience with factory management, and concern for high quality. Ms. Garcia has experience in cabinetmaking and has supervised carpentry assistants. In the letter accompanying her resume, she suggests that, with her as production manager, he would be free to use his skills and could even expand the business. She is so convinced of the potential of Milo Products that, if hired, she is willing to invest her savings, $20,000, in the business.

Mr. Lowenthal meets with his lawyer, Frances Snyder. She suggests that if he replaces Ray Harris with Ms. Garcia, he should consider a change in the form of his business. He has three alternatives:

- He can simply hire Jo as production manager, refuse her offer of investment, and remain a sole proprietorship.
- He can form a partnership with her, in which she invests her savings.
- He can incorporate and, confident of the production end of the business, plan an expansion financed with additional capital from shareholders, including Jo.

Suggested discussion questions:

1. What considerations should Mr. Lowenthal include in making the decision?
2. If he chooses a partnership, what should be included in the "articles of partnership" to guard his interests? Ms. Garcia's?
3. In this case, list advantages and disadvantages of incorporating.
4. What form would you recommend he choose? Why?

PART B: TYPES OF BUSINESS

1. Businesses can also be categorized by their position in the distribution chain. As such, they can be viewed as manufacturing, wholesale, retail, or service busineses.

2. Define "Distribution" and "Channels of Distribution." Distribution is a system for getting goods and services from the manufacturer or producer to the intended customer in an efficient way. It involves the physical flow of products (transportation, warehousing, and handling of goods) and the channel by which these products are distributed. A channel of distribution is the path a product takes from the producer to the ultimate consumer. It includes the product, the wholesaler (who is also known to the retailer as the "supplier," "jobber," or "distributor"), the retailer and the consumer.

3. Distribute "The Elements of Distribution." Allow students time to read this information sheet silently. Explain that the arrow at the left of the chart shows the "long channel" of distribution (P/M→W→R→C). Ask students to provide examples of products usually distributed in this way (package of plastic forks, blue jeans, non-prescription medicines).

4. Students should also be able to suggest exceptions to the usual chain of distribution. Possible answers:

   - P/M→W→C "medium short channel" (appliances, some "warehouse" furniture operations)
   - P/M→R→C (cars, dinette sets)
   - P/M→C "short channel" (milk, pottery at roadside stand, some hospital equipment)

   There are many variants on these channels of distribution. For instance, there may be more than one wholesaler between the producer and the retailer. Retailers may sell to one another, or to a wholesaler interested in buying out a store's entire stock of an item. The channels can also flow "upstream," as in book publishing, where retailers have the right to return unsold books for a refund, within a certain period of time. It should also be noted that when a wholesaler sells to a consumer, the wholesaler is in strictest terms conducting a retail sale.

5. Discuss manufacturing as a small business enterprise. Manufacturing involves the production of goods, component parts of goods, or food stuffs that will either be sold to consumers in the raw form, or will be further processed and sold in a different form.

   Ask the students for examples of manufacturing ventures that are appropriate for small businesses (i.e., not capital-intense, requiring heavy investment in equipment.) Ask the students to suggest what kinds of major outlays would be needed for each kind of manufacturing company (i.e., equipment, a large plant, raw materials).

6. Explain that manufacturers face similar problems in running their businesses to those experienced in entrepreneurship in other phases of endeavor. Manufacturers must be concerned about:

   a. getting and maintaining an adequate supply of production materials;

   b. choosing a location that is convenient for distributing goods at a reasonable cost;

   c. identifying a market for their products;

   d. pricing their products;

   e. reaching the greatest number of possible buyers (e.g., wholesalers, retailers, or infrequently, consumers).

7. Point out that manufacturers also face additional concerns that do not usually affect other areas of business:

   a. product quality and quality control;

   b. the changing consumer buying patterns, which may render the small business manufacturer's product outdated or no longer in fashion. This is especially true of the maufacturer who is restricted to the production of a single item;

   c. inability to change production areas or update production techniques without significant investment in new equipment;

   d. competition from foreign manufacturing concerns which may be able to produce the same item at a lower cost.

8. Draw a map on the board (or use an existing map) showing a winery in upstate New York wishing to sell to individual consumers in Miami, Florida (perhaps people who have retired from jobs in New York to live in Florida) and to 20 retail liquor stores in Miami. Discuss with the class the disadvantages in selling individual bottles of wine directly to 1,000 consumers as compared with using a wholesaler in Miami to sell to the 20 retail outlets which then sell the bottles to the 1,000 consumers in the Florida area. Among the factors to be considered are:

   a. the cost of billing for packaging and transporting three bottles of wine from the New York producer to the Florida consumer, as compared in the costs for several cases of wine;

   b. the cost of storing or warehousing products in quantities of enough size and variety to meet the consumer demands (both basic needs and desires) of 1,000 customers;

   c. the cost of investment capital to buy the goods (60 cases of wine are cheaper per bottle but tie up more capital--a real disadvantage to a retailer);

d. the cost of persuading the ultimate Florida consumer to buy one bottle of the New York wine (as salaries of salespeople to identify retail stores and call on those which might buy the wine, money spent on advertising and promotion through discounts on product purchase in quantity by retailers); and

e. convenience.

9. Point out that a wholesaler functions to ease problems such as those stated above. Thus, the wholesaler serves the consumer, the retailer, and the manufacturer by (a) assuming a substantial part of the capital investment and financial risk required to serve varied consumer demands successfully, by (b) reducing billing, packaging or assembling shipping and storage costs by (c) expanding opportunities for marketing choices (the wholesaler provides a variety of items by different manufacturers for retailers to offer consumers) and by (d) having products available near retail outlets to meet immediate consumer demands.

10. In addition to supplying products, the wholesaler can provide a number of important support services to a retail business:

- The wholesaler may extend credit to a business for products ordered. This allows the retailer to maintain an adequate inventory even when the company's cash reserves are low.
- Wholesalers in some situations cooperate with retailers on sales promotion campaigns by providing advertising money and/or promotional materials.
- The salespeople for some wholesalers will take inventory for a retail business and suggest new product lines or amounts of stock that the retailer should order.
- The wholesale supplier is also an important source of information about new or improved products or methods of service that have just become available, as well as information about existing products

11. Discuss the role of the retailer in distributing goods and personalized services.

- Retailers bring a variety of goods to locations convenient to consumers.
- Retailers present goods in quantities consumers need.
- Retailers, with the help of wholesalers, present goods when consumers need them.
- Retailers provide personal selling service to customers, who often have special needs.

12. Many retailers also offer services. Ask students to list retailers that also provide services in their neghborhoods.

    Examples: Drug store (presciptions)

    Hardware store (home repair advice)

    Gas station (repairs)

    Plant Nursery (gardening tips, diagnosing plant diseases)

13. Elicit examples of businesses that are primarily service-oriented, but that often sell related materials or products.

    Examples: Hairdresser

    Car wash

    Golf driving range

    Caterer

14. Write this statement on the board:

    > "Service businesses constitute the fastest growing segment of the economy."

    Discuss reasons that have been given for this trend.

    - Shorter work week, creating more leisure time and demand for services
    - More women working, increasing demand for services related to food, cleaning, day care
    - Rising standard of living means that people can afford to hire out tasks they had to do themselves before.

15. Service businesses are often easier to start than other types (manufacturing, wholesale, retail):

    - One can "start small"
    - Start-up costs are lower
    - For some service businesses, owner can teach employees needed skills fairly quickly
    - Possibility of part-time work is attractive for some people.

16. Explain that the reasons given for the comparative ease of starting a service business are examples of one more way to categorize businesses:

Capital-intense: businesses requiring a large amount of money to operate (an automobile factory)

Labor-intense: businesses requiring many employees to operate (a private school)

Knowledge-intense: businesses requiring specialized knowledge to operate (a consulting firm)

17. As an outside assignment, ask students to re-read the "Interviews with Eight Chicago Entrepreneurs" (Unit I-C). Distribute the worksheet, "Capital-, Labor-, and Knowledge-Intense Businesses." Ask students to judge for each budiness the relative importance of capital, labor, and knowledge. (Two are omitted, John Swain's drug company and William Van Straaten's Art gallery, because they do not give sufficient information for this exercise.)

18. Conclude with a focus on characteristics of small businesses in which beginning entrepreneurs are most likely to succeed.

    - Low capital investment (not capital-intense)
    - Few employees
    - If knowledge-intense, owner(s) must be very well qualified
    - Retail or service business
    - Carefully chosen legal form (whether sole proprietorship, partnership, or corporation, having weighed advantages and disadvantages of each with the help of a lawyer)
    - Require skills, hard work, and persistence from the owner(s)

    Relate these conclusions to those reached in Unit I: entrepreneurs are often "loners," with a strong drive to succeed, and who like to be their own bosses and make their own decisions.

19. In class, discuss the results and help students to draw conclusions based on the eight sketches.

    Below is a suggested format for answers. Correct ratings are given, but you may want to tally the class' responses on the board before starting discussion.

BUSINESS	CAPITAL-	LABOR-	KNOWLEDGE-INTENSE	POINTS TO STRESS
Jim Errant Medium-priced restaurant	*	**	*	"42 employees" is key factor
Marjorie Kaiz Shipping service for business	no	no	**	Capital not mentioned, but clearly a 1-woman operation
Gordon Segal European cookware store	**	*	*	Limited capital may have held him back but forced him to innovate
Edward Klinenberg Marketing and communications consultant	no	no	**	Provides one service--knowledge; needs minimum capital, no labor of others
Bill Redhead Folk music restaurant	*	no	**	Knowledge the key, gotten from experience, partners, and friends
Elizabeth Honesty Currency exchange	**	no	**	Capital and knowledge both needed equally in order to buy a foreign currency low and sell it high.

KEY: ** = most important; * = also important; no = not important

Possible conclusions, assuming these businesses are typical:

1. Most small businesses are not capital-intense. When they are, they often experience difficulty in obtaining adequate financing.

2. Only one of the six businesses was labor-intense. For such businesses capital may also be a concern, as well as volume sufficient to support the entrepreneur and employees. In labor-intense businesses, availability and dependability of employees must directly affect survival, and a good working relationship with employees (and unions) is necessary.

3. The greatest number of businesses are clearly knowledge-intense, relying on the specialized skills of the entrepreneur, who often runs the business single-handed. Of the eight, five were clearly service businesses, with entrepreneurs providing some or all of the service.

UNIT LINE

INFORMATION SHEET

THE ELEMENTS OF DISTRIBUTION

1. Producer or Manufacturer	• Starts with raw materials or components and creates a product • Examples: a turkey farm, a coal mine, a shirt factory, a bakery, an automobile assembly plant, a laboratory which produces medicine, radio parts factory.
2. Wholesaler	• Buys products in very large quantities from the producer and sells them to smaller wholesalers, retailers, institutions, industries, and government agencies. Very few wholesalers sell goods directly to the ultimate consumer. • Examples: a nursery that sells plants to retail nurseries and landscape architecture firms, a food supply house that sells to local grocery stores and restaurants, a laundry that only services restaurants, hotels and hospitals.
3. Retailer or Service	• Sells products or services directly to the ultimate consumer. • Examples: laundromat (service), reupholstry shop (goods and services), gift shop (goods), hairdresser (services and some goods), daycare center (service), drugstore (goods and service), discount record store (goods).
4. Consumer	• Customer who uses the product or service • No further distribution occurs except for possible resale of the product as "used goods."

WORKSHEET

CAPITAL-, LABOR-, AND KNOWLEDGE-INTENSE BUSINESSES

Instructions: Re-read the sketches in Unit I, Part C. For each, decide if it is mainly capital-, labor-, or knowledge-intense, that is, depending most on one of these three factors for its success. Follow this key:

**	very important
*	also important
no	not important

	Capital-	Labor-	Knowledge-Intense
Jim Errant-restaurant			
Marjorie Kaiz-shopping service			
Gordon Segal-cookware store			
Edward Klinenberg-marketing and communications consultant			
Bill Redhed-folk music restaurant			
Elizabeth Honesty-currency exchange			

What conclusions can you reach concerning capital-, labor-, and knowledge-intense businesses, based on your results? (Be prepared to discuss this question in class.)

Student name________________________________Date____________________

PART C: FRANCHISES

1. Ask students for examples of franchises.

   Possible answers: fast food establishments - McDonald's, Burger King

   Realtors - Realty World

   Services - Roto Rooter, H&R Block tax preparation

   Car dealers - Ford, General Motors, AMC, Toyota

2. Define franchise: a "distribution contract" or "license" between two entities, the franchisor and franchisee. It is not another legal form since either party can be an individual, partnership, or a corporation.

3. Ask 3 students to complete this sentence, "I'd like to own and manage a McDonald's restaurant because..."

   List the advantages students name on the board.

4. Ask students if they've had negative experiences with franchises. If so, list those named.

5. Distribute the Information Sheet, "Franchising." Discuss any points that have not already been covered. Tell students that, as homework, they will be contacting a local franchise. Students should obtain approval of the instructor to avoid overlap. If only a limited number of franchises are available locally, students should be grouped. When the choices have been finalized, distribute the worksheet, "Advantages and Disadvantages of Franchising," reviewing its contents with students.

6. Students should report to the class the key points the franchisees made. Not all students need report, but try for a balance of types of franchises (different businesses, both product and service) and for both positive and negative experiences.

7. Students should be advised that in considering opening a franchise business, it is important to get a knowledgeable lawyer's and/or accountant's advice on specific contract and accounting advantages and problems of franchising.

INFORMATION SHEET

FRANCHISING

FRANCHISE - a distribution contract or "license" between two entities, the franchisor and franchisee. It is not an additional legal form; either party can be an individual, partnership, or a corporation. Most franchisees are at a retail or service level. Basically, the franchisee invests capital (approximately $25,000 - $100,000) in exchange for the expertise and widely-known product image of the franchisor. Often the fee includes the cost of start-up stock. Examples of franchisors: McDonald's, Realty World, General Motors, Roto-Rooter, Sunoco.

THE ADVANTAGES AND DISADVANTAGES LISTED BELOW ARE EXAMPLES OF SOME OF THE CONTRACTED ARRANGEMENTS BETWEEN FRANCHISEES AND FRANCHISORS. HOWEVER, SUCH RELATIONSHIPS VARY FROM FRANCHISE TO FRANCHISE.

ADVANTAGES:

- The established reputation of the franchisor helps bring in business.
- The franchisor can offer a proven marketing strategy, including advertising, sale items at reduced prices, and sales incentives.
- Training and guidance may be provided to get the business going, as in setting up the store, ordering and bookkeeping, and regular training meetings.
- Proven products and methods supplied by the franchisor can help bring in business.
- Accounting and record keeping systems may be provided.
- Financial assistance is sometimes provided in the form of credit, low interest loans, or insurance available through the volume buying power of the franchisor.

DISADVANTAGES:

- Franchisees must buy from designated or approved suppliers.
- In addition to the original investment, the franchisee must pay the franchisor a percentage of gross sales (not just of profits).
- The franchisor may choose not to renew the contract each time it expires (often yearly).
- In addition, the contract may be terminated by the franchisor for any of numerous reasons stated in the contract, thus allowing termination virtually at the will of the franchisor.
- If the contract is revoked, the franchisor will pay the franchisee for equipment, supplies, and stock on hand, an amount often much less than the franchisee's total investment.

- If the contract is revoked, the franchisee cannot open a similar business in the same area ("anti-competition clause").

AS WITH ANY CONTRACT, BE ALERT FOR WHAT MIGHT GO WRONG. It is strongly recommended that prospective franchisees see a lawyer before signing, to explore the contract provisions. The contracts are designed by the franchisors to protect themselves by means of restrictions on the franchisee. As long as the francisee accepts these controls and maintains a good working relationship with the franchisor, few problems should arise.

There is little protection in the contract if something goes wrong. Once a franchising contract has been signed, there are few legal remedies for franchisees. Some suits have been successfully brought under federal and state anti-trust statutes concerning required suppliers and other franchisor controls. Some states have strong franchise legislation. In addition, the Uniform Commercial Code (a similar set of statutes passed in each state which regulates commercial dealings) contains two concepts that can support franchisee actions against franchisors, "unconscionable contracts," and "good faith dealings." These points should be discussed with a lawyer experienced in franchise law.

However, litigation is an expensive process, and the above statutes are recent developments that contradict the traditional notion that a contract is binding, no matter how harsh its application. In court, this traditional concept of a binding contract often prevails.

WORKSHEET

ADVANTAGES AND DISADVANTAGES OF FRANCHISING

Student name(s)____

Franchisee interviewed____

Franchise____

Franchisee phone____________________Date interviewed___________________

(Use separate sheet for answers, if necessary)

1. Background information (such as previous business experience, previous franchise experience, how franchisee investigated the business, what requirements had to be met, financing, how long in the business)

2. What have been the advantages of this business?

3. Have you had any problems as a franchisee that you might not have had otherwise?

4. What advice would you give us, as potential business people, about franchises?

UNIT III: MARKETING

SUMMARY: Marketing is an important tool for helping small business owners/managers to define consumer targets, collect and analyze consumer and sales information, and solve business problems.

STUDENT LEARNING OBJECTIVES:

- Explain the importance of marketing.
- Explain the basic techniques of marketing research.
- Identify the criteria by which target markets are defined.
- Plan a product or service line and mix.

TEACHING STRATEGIES:

Part A: Introduction to Marketing: discussion, case analysis of homework assignment

Part B: Marketing Research: discussion, small group activity

Part C: Marketing the Goods and Services: discussion, small group activity.

Part D: Identifying the Consumer: discussion, small group exercise.

Part E: Identifying the Competition: discussion, worksheet.

MATERIALS PREPARATION:

Part A: Duplicate "How to Make a Last-Place Product a Banner Success" (to be completed as homework before class) and "Internal and External Variables of Marketing."

Part B: No preparation.

Part C: Duplicate "Product Line and Product Mix."

Obtain and have available several magazines which have many illustrated advertisements.

Duplicate one copy of each of the five student group activity case studies, "Planning the Product Line and Mix."

1. "Variety Store"
2. "Drug Store"
3. "Book Store"
4. "Pizza shop"
5. "Small Appliance Repair Service"

Part D: Obtain community information and prepare a local Community Profile (See instructions following the REFERENCES), Duplicate Community Profile and "Market Segmentation."

Part E: Duplicate "The Yellow Pages."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

3. "Ray Garcia." Discussing his printing bid with the purchasing agent of a large insurance company, Ray Garcia, a Puerto Rican, must decide how to deal with prejudice.

Other Mini-Problems

9. "Count the Customers." Students invent an efficient way to record the number of customers entering a store and their arrival time.

12. "Honolulu Toy Business." Given the necessary facts, students are asked to decide between a toy business dealing in local handcrafted toys and one dealing in mass-produced toys.

21 "Table Radio." Students segment the market for an elaborate table radio and write newspaper advertisements for three market segments as an exercise in adapting a message to the circumstances of several types of readers.

23. "Kumquats." Students devise a marketing research system to find out if customers would be interested in buying unusual and exotic food.

36. "Sylvia Messer." Students decide what Sylvia, the owner of a sportswear shop, should do about a man who returns a luxury shirt after having worn it.

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PART A: INTRODUCTION TO MARKETING

1. Introduce and define marketing. Marketing is the process of finding out what a consumer (a customer or buyer) wants or needs and providing it, hopefully at a profit to the seller. Marketing consists of all the activities involved in getting goods and services from the producer to the consumer; that is, product design, marketing research, promotion, and pricing.

2. Have students name jobs they have had in the marketing "chain" or jobs their parents or friends are involved in.

3. Write the key elements in marketing on the board

   - product design
   - marketing research
   - promotion/advertising
   - pricing

4. Describe the way each element influences the sales potential of a product. (Utilize experiences of students to expand on each element's definition.)

   For example, product design may influence the usefulness, efficiency or attractiveness of the product. The design is integrally involved with the image of the product. Many existing products are redesigned periodically--or their packages are redesigned--to improve their practicality and/or appearance (e.g., glass shampoo bottles have largely been replaced by plastic bottles; pots and pans are now offered in a number of colors to blend with kitchen colors).

   Ask students what changes in product design or packaging they notice in the home.

   Marketing research is necessary to determine which products certain types of consumers are likely to buy, the colors and design features that are most likely to appeal, the optimal price ranges that the products will sell for, etc.

   Promotion or advertising is the message about a product that tells the consumer that the product is worth having. The message may originate with the producer, the supplier, or the retailer. The message also may take a variety of forms, including newspaper or magazine advertisements, television commercials (often provided by the producer), demonstrations, displays, pricing advantages, etc.

   Ask if the largest ads in newspapers and magazines are the most attention-getting. If a sexy man or woman, a fast car or a famous actor or actress appears in the ad, do they make a difference in the appeal of the ad? Why? Can it have a negative effect?

Pricing is an important element in marketing a product since it is a major factor considered by a consumer before buying the product or service. There are, however, many constraints on the pricing of products. They are: (1) the minimum price that the retailer can charge and still make a profit for the business; (2) the basic price of the product (e.g., production and associated costs); (3) the price that competitors are charging for a given product. The price of a product must be high enough to bring a profit to the retail or wholesale business or the producer, but it cannot be higher than the consumer is willing to pay. The price of a product will directly affect the number of units that are sold.

Elicit from the students examples of how each element could affect various types of businesses.

Discuss the impact that fad movies have on sales of toys, fashions, etc. (e.g., "STAR WARS" weapons; "GREASE" satin coats, etc.). Would a business person charge a higher price for these items when they first come out or a year later? Why?

5. Stress the importance of marketing in small business. Marketing is a dynamic and constantly changing process. A business which ceases to fulfill people's needs and wants will not survive (e.g., a business which exclusively sells suits of armor is unlikely to survive because there is currently little need for suits of armor).

   Ask students for examples of

   - products and services that satisfied consumers 10 years ago but are no longer in demand;
   - products and services that have come into demand recently and would not have been marketable 10 years ago; and
   - products and services that may be in demand 10 years from now but are not now marketable.

   This is also a concern for the entrepreneur involved in seasonal business such as ice cream stands, ski equipment, sail boat rentals, etc. A small business has an especially hard time changing with consumers' changing tastes, because it does not have the resources to carry out formal market research surveys. Nevertheless, some sort of market research is essential if the business is to change with the times.

6. Stress the importance of marketing in minority business. Marketing can create a business image that is important to attract and maintain customers.

7. Discuss "How to Make a Last Place Product a Banner Success," which students should have read for homework. Analyze the article

in light of three factors -- creativity, marketing, small business--to extract the point of the article more directly.

8. Discuss how the Mets illustrate the marketing concept. The Mets encouraged attendance, hence profits by: (1) appealing to the fans' sense of nostalgia (they developed the image of the Old National League; they hired older players; and they played in an old stadium); (2) providing entertainment through audience participation (spotlight groups, Camera Day, Banner Day, etc.) and by highlighting colorful baseball personalities, and (3) creating an underdog image (fans identified with the team and cheered it on).

9. Explain how the marketing concept influenced the Mets' success. The Mets' objective (high attendance) and strategy (entertainment) were consumer-oriented and thus successful, while the Yankees' objective (to win games) and strategy (to concentrate on the team) were company-oriented and thus unsuccessful. It's the sales a business makes that make it a success.

10. Discuss the ways that a business under new management might change or improve its image through various marketing techniques. Ask the class to provide examples for specific types of businesses.

11. Distribute Information Sheet, "Internal and External Variables of Marketing."

12. Explain to the students that there are some elements of the marketing system that a small business owner/manager can't control. Product, price, promotion, and distribution can be controlled and varied by the small business owner/manager to meet the needs of her or his target customers, but some factors or variables that affect a business cannot be controlled. These are called "external variables."

13. Read aloud and discuss the list of external variables on "Internal and External Variables of Marketing."

14. Explain the practical considerations which must be addressed in planning a marketing strategy. Some types of marketing are costly and may cut into profits (e.g., promotion/advertising). In these cases, the small business owner or manager must determine how much he or she can invest in marketing and what the short-term and the long-term benefits of the marketing strategy will be to the business.

15. Summarize the marketing concept. To be successful, businesspersons must consider the consumers--their needs and desires, likes and dislikes, habits and attitudes--at every stage and level of the business operation. At the same time they must recognize the potential consequences of their marketing strategy.

HOMEWORK CASE STUDY

HOW TO MAKE A LAST-PLACE PRODUCT A BANNER SUCCESS

THE NEW YORK METS MAY NOT WIN MANY BALL GAMES, BUT THEY WIN CUSTOMERS IN DROVES THROUGH A SENSE OF FAN PSYCHOLOGY, A SPARKLING STADIUM AND A BLITHE SPIRIT -- CASEY STENGEL

As the New York Mets trotted out on the turf at Shea Stadium in 1965, they were involved in much more than opening the National League season. They had the choice of continuing a marketing drama that, for three years, had dazzled and mystified many long-time observers of the big-business ballgame.

The cause of the Mets' box office success prompted all kinds of bewildered guesswork. More conservative types concluded that it was largely due to the club's new ball park (which seats 55,000) and having the World's Fair about a home-run shot away. The most popular speculation, however, was that the habitual cellar-dwellers' main attraction was based on a loser's mystique--since everyone loves the underdog.

Lost in all this wise thinking, though, is the fact that the Met management, before the makeshift club ever took to the field, had devised a model marketing plan for a new product introduction, based on:

Analyzing the present market and its potential.

Playing up the product's special plusses.

Cashing in on the competition's mistakes.

In 1961, the Met organization began to take shape. On the surface, the chances of building a big Met following seemed remote. The Yankees had had local baseball all to themselves since 1958--when the two National League teams, the New York Giants and the Brooklyn Dodgers, bolted to San Francisco and Los Angeles, respectively.

The Yankees, then, had four years to attract National League fans to Yankee Stadium, and to expand their basic marketing area--Westchester, Connecticut, New Jersey and upper Manhattan--to Long Island and other parts of the city. They missed the chance by their own nearsightedness, being content to win pennants and lose customers. And they also dismissed the incomparable and ageless Charles Dillon "Casey" Stengel as the Yankee manager in October, 1961.

Aided by Yankee unconcern, the Met promotional strategists sold nostalgia and Casey right from the start. They passed up promising youngsters in the player draft and bought older National League hands (fading or not), instead. The original Mets included such New York favorites as Gil Hodges, Richie Ashburn, and Clem Labine.

Club representatives, meanwhile, were available for speaking dates all over, particularly in Long Island, an area neglected by the Yankees and handy to Flushing, where the new stadium was to rise. "We felt we had a special commodity in Casey, and we used him heavily," recalls the Mets' first promotions director. This meant, among other things, that Casey commanded the Mets' float in Macy's 1961 Thanksgiving Day Parade--even before the Mets made their earliest errors in the Old Polo Grounds.

New Slants on Old Pitches

The Polo Grounds, long since deserted by the Giants and run-down before they left, was a fairly uninviting ball park. But the Mets poured several hundred thousand dollars into improving it, and the club was off and bumbling. No one seems to know exactly when the stampede began, but more and more fans piled into the Polo Grounds--some of them carrying banners with words of encouragement for their favorites. This new breed of fan rocked the stadium with roars of "Let's Go, Mets!"

These pleas sometimes failed to reach the players (who won only 40 of 160 games in 1962). But they penetrated to nearby Yankee Stadium, where attendance sagged to 1,500,000 from 1,750,000 in 1961--when the club had no competition. The Mets even got about 33% more fans in their first year than the Giants had gotten in their last one at the Polo Grounds.

Much of this crowd was attracted by special promotions--the kind of thing that's been a part of baseball for years. But the Met promotion people took their cue from the fans. In 1962, for instance, the faithful began bringing cameras to the park and, as a result, a Camera Day was started--when fans could crowd around near the dugout for shots of their heroes. Banner Day, of course, is a Met institution, when prizes are given for the choicest inscriptions (there were 1,100 entries in 1964). Some of the other "Nights" and "Days" in 1962 included: Family Day (when the ball players' kids put on a brief game), Musial Night, Hodges Night, Home-run Hitting Contest (an old event, but last year the Mets opened it to all kinds of athletes), Old Timers' Day, and on and on--most of them familiar but tailored thoughtfully to the fans' taste. The mighty Casey, himself, suggested Cab Drivers' Day.

In 1962, Casey marked 50 years in the big leagues and the Mets marked one year in the Polo Grounds--both events to publicize. For the Mets, however, a new promotion theme centered about "The Mets Are On The Move"--suggesting they would be in the new Shea Stadium in 1963. They weren't, of course, for the Flushing park wasn't ready. But attendance boiled up over a million at the Polo Grounds as banners waved, old stars such as Duke Snider had "Nights," and the club lost 111 of 162 games. The Yankees won another pennant and dipped to 1,300,000 at the gate.

Stengel to Shea to Change

In 1964, in the spanking new Shea Stadium, the Mets drew still more fans--which so aroused them that they won 53 games (a new Met high) out of 162, but still were not menaced for the cellar spot. The Yankees (angry by now) copped the American League flag as usual, but attendance kept sliding to 400,000 below the Mets.

If the New York fans welcomed the Mets, so did a variety of companies as sponsors; Leibmann Breweries, Rheingold beer and Viceroy cigarettes, Bohack Supermarkets, King Korn Trading Stamps, Howard Clothes, and Borden's dairy products among others. Marine Midland Trust Co. and Federal Bank and Trust Co. steadily featured the Mets in advertising, and a new promotional movie, "It's a Met, Met, Met, Met World," was displayed at the Federal Bank Branch.

What about the 1965 season? The World's Fair, of course, was still going on and the Mets added such attractions as Yogi Berra, another castoff Yankee manager, and Warren Spahn, the great left-hander. On the basis of advance ticket sales, an attendance goal of 2 million was set. The promotions were not more numerous but followed the same unusual and imaginative course.

Some critics suggested--in line with Mets' appealing last-place posture--that the club would lose fans if it crept out of the cellar. Met officials, naturally, called this "ridiculous"--pointing out that the club has other charms besides losing. This makes sense, for most observers don't believe New York fans would continue forever to delight in clumsy performance. And the glamour of the World's Fair and the new ball park couldn't be enough to compensate for the lack of base hits. However, that may be, the Mets' marketing saga is still an exciting one.

Written assignment:

Analyze the article in terms of a small business' marketing creativity. What effective strategies were used in promoting the Mets as a business?

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INFORMATION SHEET

INTERNAL AND EXTERNAL VARIABLES OF MARKETING

Internal (controllable)

-- Non-Marketing resources	Production, financial resources, personnel capability, location.
-- Marketing mix	The term used to describe the four key aspects of a business' marketing system:
1. Product (goods or services, includes policies)	Product line, changing existing products, adding new ones, branding, packaging, color, service, guarantees, repairs, warranties
2. Price	Base price, discounts
3. Promotion	Advertising, personal selling, sales promotion, image, media
4. Distribution	Somewhat external and fixed; still can choose whether to sell perfume through discount, high fashion, door-to-door, drugstores, or jewelry stores.

External (uncontrollable)

-- Market demand: economic and behavioral	Buying power, number, location, motives, behavior, size, age, sex, race, religion, cultural tradition
-- Political/legal	Truth-in-advertising, truth-in-lending, discrimination laws, pollution laws, zoning, blue laws, wage-price freezes.
-- Social/ethical	Consumerism, company image (reputation)
-- Competition	Industry, other products, substitutes
-- Technology	Obsolescence, new methods and new materials
-- Distribution structure	System by which goods flow physically from producer to ultimate user (e.g., tropical fish can only be sent by air and there is no airport in your town).

PART B: MARKETING RESEARCH

1. Introduce marketing research. Define the term and its purpose. Marketing research is the collection and analysis of information that relates to the buying habits and preferences of consumers. It is the tool that helps small business owners or managers define business problems, collect the necessary information, analyze the information, and attempt to identify the most profitable mix of products or services that the businessperson can offer to the public.

   Many small business failures can be traced to the problem of determining a product and market. The enthusiasm of the prospective entrepreneur can often cause him or her to overlook this most basic business premise. The basic purpose of a business is to satisfy customer needs and wants.

2. Write on the board the six major steps that constitute the process of marketing research:

   1. Define the problem (= the objective)

   2. Collect data

   3. Analyze data

   4. Look at alternatives, which are always based on assumptions.

   In business, assumptions are measurement tools: we measure alternatives against assumptions. Usually, assumptions concern cost, time, and activity, and it is helpful to question them. Other assumptions concern materials, machines, and people.

   5. Determine the product to be marketed

   6. Implementation

   The goal of marketing research is not to research the product, but to research the consumer, his or her habits, values, preferences, etc., in order to identify the most profitable mix of goods and services to offer to the public.

   Because the majority of small businesses operate on a fairly small margin of profit, it is not enough to market goods or services which might sell. It is essential to determine as precisely as possible that a market does exist for specific products or services before starting a business or expanding an existing inventory.

3. Explain that marketing research is useful to the small business person at several different points in a business's life:

   a. Before beginning a business, it is necessary to define whether the location, product, surrounding population, and image of the business are compatible with each another.

   b. After beginning a business, it is necessary to determine whether new or different products or services should be added to or substituted for the existing ones to increase sales or profits, whether the business location should be moved, where to make changes in products or services, etc.

   A common small business oversight is to do a good job in marketing research before opening and then to neglect it after opening, when time is less available. This is a serious mistake.

4. Pose this problem to the class:

   "Suppose you want to go into small business after you finish school. Your family has offered to lend you money for the down payment on a business. You are interested in music and are considering buying a neighborhood record store that is for sale. This record store has always stocked classical records more than any other kind.

   "All you know about the store is its location (a side street of a business district), its current stock (classical records, a few folk records, some sheet music), and the size and appearance of the building (large, well kept, older building)."

5. Ask the students if they would decide to buy the store based on this information. Is this information enough?

   Ask them what additional information they would want before deciding Write on the board the appropriate responses (e.g., the characteristics of the area where the business is located, the potential consumer population profile, information about the present owner's reason for selling the business, local competition, etc.)

6. Write the possible sources of marketing research information on the board.

   a. Trade associations and trade journals

   b. Chamber of Commerce

   c. Government agencies (U. S. Department of Commerce, Bureau of Census)

d. Business periodicals such as Business Week, The Wall Street Journal, and Advertising Age.

e. Individual research. Get out into the community. Look around and ask questions.

7. Explain that these sources are only some of the formal and informal sources of information available to help solve marketing problems, and make marketing decisions.

8. Elicit ideas for additional sources of information.

9. Conduct the following marketing research small group exercise:

   a. Divide the class into groups of four or five members.

   b. Each group must determine the needs and wants of the class as a market and determine what business would be successful in meeting the needs of the class. In effect, each group makes a market analysis of the entire class to determine what businesses would be successful. For example, one group might determine that a business selling school supplies would be successful. The easiest way to accomplish the market analysis might be to develop a questionnaire.

      Tell students that their group's questionnaire may be no more than one page in length.

If the exercise is to continue into the next class period, you can collect the groups' questionnaires, have them copied by the next class, and distribute them to all students in the class. Be sure to identify each questionnaire with the business profile group that writes it.

If the exercise is to conclude in the same class period, divide your chalkboard space into sections equal to the number of groups. Ask groups to choose a student to write their questionnaire on their section of the chalkboard, again identified by business profile group. Class members can them complete the questionnaires on blank paper at their desks (using a separate page for each questionnaire).

PART C: MARKETING THE GOODS AND SERVICES

1. Write the four elements of marketing on the board: product, price, promotion, and distribution.

2. Define goods and services. There are four elements of marketing that a small businessperson can control and vary to reach his or her market: product, price, promotion, and distribution. The most basic of these elements is the product or service, since price, promotion, and distribution strategies will largely be shaped by the nature of the product. A product, at its simplest level, is anything that someone is willing to sell and someone else is willing to buy. It can be a physical object or a service. However, the product is more than just a physical object or a service--it is imbued with a whole set of images and values that the consumer sees or feels about the product.

3. Discuss the different reasons why consumers buy products. Examples: People need the product to survive or to maintain good health or cleanliness. They want the product or service to make themselves more attractive, to make life easier. They just feel like buying the product. They are replacing a similar product which has broken, worn out, been outgrown, etc.

4. Classify and write on the board the different types of purchases: Impulse items, staples, emergency goods and services.

5. Ask the class to provide examples of each type of purchase. Ask the class for examples of products which may fall into more than one category. Example: A sweater may be purchased either out of real necessity or because the buyer likes it (even though he or she already has several) or as an extra item suddenly purchased to match a new pair of pants.

6. Define and discuss the image of a product. In marketing, a product is more than just a physical object or a service. Apart from its basic function, a product consists of a set of images that the customer attaches to it. The image may result from the way the product looks, feels, from what the advertising suggests that it may do for the consumer, or from some particular interest or preference of the consumer. These images satisfy specific consumer needs--psychological as well as physical. For example, a cinnamon-flavored, red-colored toothpaste with whiteners and fluoride would satisfy a parent's need for prevention of tooth decay while appealing

to a child's taste preferences. This same toothpaste could also appeal to an adult's desire for a prettier smile, sex appeal, and fresher breath.

7. Explain the importance of understanding the intangible product image when determining what products will sell to which target group.

8. Display a series of advertisements for nationally advertised products. Ask the students what product image is put forth by each ad, and what consumer target groups are likely to be affected by the ad's image message.

9. Distribute the Information Sheet, "Product Line and Product Mix," one to each student.

10. Define and discuss "product line" and "product mix." Two important features of products are product line and product mix. A product line is a group of products that have similar uses and physical characteristics. For example, the product lines of a camera store are, broadly, photographic supplies and services. The product lines can be further subdivided into film, cameras, lenses, darkroom supplies, projectors, film, developing services, printing services, and portraiture.

    The collection of all these product lines is called a product mix when the product lines are offered in one store. Product mix is all the products, which includes both goods and services, offered for sale by a business.

11. Ask the students what the product mix for a bookstore could be. Books, maps, calendars, posters, records, magazines, stationery, cards, jigsaw puzzles, etc.

12. Define "breadth" and "depth," illustrating with the example of the previous step. The number of product lines offered by a business is called "breadth." If a bookstore only carries books, its breadth is narrow. If a bookstore carries all the product lines just listed, its breadth is wide. Depth within the product line refers to the assortment of models offered. The product line, books, can be categorized into reference books, children's books, fiction, mysteries, science fiction, cookbooks, etc. This variety gives the product line depth.

13. Explain the small group exercise, "Marketing, Planning the Product Line and Mix." It will allow students to plan product lines and mixes for different kinds of businesses. The class will be divided into five groups. Each group will be given a profile of a small business operation. Based on the information contained in the profile and the students' understanding of product marketing principles, each group will prepare a report describing an inventory of products and/or services for the business in that group's profile.

    a. Divide the class into groups and distribute a business profile to each group.

    b. Allow the students time to read through the profile and ask them if they have any questions about the exercise. (Note: at the conclusion of the exercise, the instructor should collect the work done by each group. The group work will provide a basis for a future project to be conducted in Unit VI.)

    c. Collect reports and evaluate them for:

        a. Appropriateness of the inventory selection for the target consumer groups specified in each ase.

        b. The completeness of each group's planning activity.

        c. The overall grasp that each group exhibits of the principles of marketing.

INFORMATION SHEET

PRODUCT LINE AND PRODUCT MIX

Product Line --	A group of products that have similar uses and physical characteristics. Examples: sporting goods, or men's apparel, or beauty aids, or landscaping services.
Product Mix --	The collection of product lines offered by a store. Examples: sporting goods store--golfing equipment, ski equipment, tennis racquets, basketballs, baseball bats; men's clothing store--men's furnishings (shirts, ties, underwear) men's ready-to-wear (suits, sport jackets, topcoats, slacks); drug store--beauty aids, health aids (cold remedies, toothpaste, pain killers), infant goods (diapers, baby food, pacifiers).
Breadth --	The number of product lines offered by a business. Example: The product lines of a shoe store may include (1) types and styles of footwear, (2) assorted sock styles, (3) water repellent treatments for boots, (4) matching hand bags, and (5) support arches.
Depth --	The assortment of models offered within a product line. Example: The product line of a shoe store is footwear. The depth of the product line is concerned with the many possible variations within the single product line (e.g., dress shoes, running sneakers, work boots, baby shoes, golf shoes, etc.).

Sum of Product Lines	=	Product Mix
Sporting goods & Clothing & Shoes & Dehydrated Foods	=	Wilson's Sport Store (moderate breadth)
Hot dogs & Soda	=	Joe's Dogs (no breadth)
Back Packs & Flannel shirts & Hiking Boots & Dehydrated Fruits	=	Wilson's Sport Store (no depth)
"Franks" & Chili dogs & Corn Dogs Coke & Root Beer & "7 Up" & Orange drink	=	Joe's Dogs (moderate depth)

IN-CLASS CASE STUDY

PLANNING THE PRODUCT LINE AND MIX

#1 Variety Store Profile

You have just bought a small variety store business in a middle income neighborhood of houses and apartments. The population consists mostly of senior citizens and families with children. Because most of the older people do not drive, they will shop in your store for some items of necessity. You are interested in attracting as much business as possible from this neighborhood and you feel that you have a ready-made market if you stock the right kinds of products and provide some essential services. How will you go about deciding what to stock and what will you decide to offer?

Specify your plan for selecting items or services that you will sell. What items and services are expected to appeal to what target groups? (List.) Do you foresee any special problems in making a wise selection?

IN-CLASS CASE STUDY

PLANNING THE PRODUCT LINE AND MIX

#2 Drug Store Profile

You have just been hired as a manager of a small drug store located on a side street in a major business district. The district has a number of retail shops, several of which are expensive and prestigious. There are also new office buildings in the area which house several hundred professional people, including doctors, lawyers, and insurance salespeople, as well as their staffs. A large "chain" drug store is located two blocks from your small store. You, as manager, have been given complete freedom to choose the store's inventory. How will you go about selecting an inventory of products that will attract the greatest number of customers? What services will you offer?

Specify your plan for deciding what to stock. What items and services are expected to appeal to what target groups in your area? (List.) Do you foresee any special problems in making a wise selection?

IN-CLASS CASE STUDY

PLANNING THE PRODUCT LINE AND MIX

#3 Bookstore Profile

You have just inherited your uncle's small bookstore which is located in a shopping center in the suburbs. Your uncle had an old-fashioned idea about running a bookstore, and only carried hardcover books and a few paperback novels. The rest of his stock was limited to such items as bookplates, bookmarks, and bookstands. You have discovered that the business is not doing very well and decide that it is time to change the store's inventory and image. Your potential consumer population consists primarily of suburban families who do their grocery shopping at the center's large supermarket, shop at the large discount department store for clothing, and eat at the family style restaurant located nearby. How are you going to change your image and your inventory?

Specify your plan for selecting items or services that you will sell. What items are expected to appeal to what target group? (List.) Do you foresee any special problems in making a wise selection?

IN-CLASS CASE STUDY

PLANNING THE PRODUCT LINE AND MIX

#4 Pizza Store Profile

You have owned the small pizza store one block away from the high school for many years. During this time, the students have always provided most of your business, at lunch time and after school. Recently, however, you learned that a large office building will be built directly across the street from your store and you see definite possibilities for attracting the employees who work in the new building as customers. You ask yourself: "How can I best attract this new business and what new or different foods and services must I provide?" How will you go about determining the product line?

Specify your plan for selecting items or services that you hope will appeal to the new officeworkers. What items are expected to appeal to what target groups? (List.) Do you foresee any special problems in making a wise selection?

IN-CLASS CASE STUDY

PLANNING THE PRODUCT LINE AND MIX

#5 Small Appliance Repair Service Profile

Because you have always enjoyed working with your hands, you took the Electrical Program in high school. After several years of working as an electrician's helper, you have saved enough money to start a small appliance repair shop. You have found a small building that you can afford to rent, located in an area that is both residential and industrial. The people who live in the neighborhood are mostly large families with young children, but you think that you can also attract business from the people who come in to work in the factories as well. How are you going to decide what services to provide and what replacement parts you should carry? Are you going to provide services for larger appliances?

Specify your plan for selecting items or services that you will sell. List the "products" that you will carry and the reason that you have chosen each of them. Do you foresee any problems in making a wise selection?

PART D: IDENTIFYING THE CONSUMER

1. Introduce market segmentation. A basic and continuing marketing activity is the identification of what types of goods or services are likely to be purchased by which types of potential consumers--the buying population. After the businessperson establishes that a market exists for particular goods or services, he or she must identify those characteristics of the consumers which influence their buying behavior. With this information, the businessperson can determine what products will give the greatest satisfaction to the consumers. For example, "selling clothing" is not specific enough. Work clothes and formal wear are both sold, but not necessarily to the same market.

   The age, social and economic status, and educational level of consumers in a community may influence price levels and types of goods or services either needed or wanted. Buying patterns also change among consumer groups. For example, the "youth generation" (ages 15-34) tends to exhibit particular consumer patterns (e.g., some types of sporting equipment, stereos and records, entertainment) which are different from those of older buyers. Blue collar workers generally have different leisure time interests and spending patterns than those of white collar workers. Thus it is important to determine the average age, income, and level of education in your community.

2. Define "total market" and "market segmentation." The total market for a product or service is all the potential buyers of the product. Market segmentation is the process of dividing the total market for a product into smaller submarkets. Each submarket must be uniform with respect to a significant characteristic.

   The small business person must decide which submarkets to pursue. For example: the total market for footwear can be segmented into people who need: (1) construction work boots, (2) formal dress shoes, (3) atletic sneakers, (4) casual shoes, (5) winter boots, and so forth. If the entrepreneur were to set up business in Florida, he or she might not stock any winter boots but would stock many styles of casual shoes and sneakers.

3. Discuss the criteria for segmenting markets. In order to segment a market, the characteristics of the segments must be measurable and the data about them accessible. The market can be segmented or divided into groups by considering such characteristics as:

   a. Age
   b. Sex

93

c. Marital and/or family status
d. Occupation
e. Income
f. Geographical location
g. Physical characteristics
h. Others (e.g., home ownership, religious or ethnic identity, etc.)

4. Write the following example of market segmentation on the board as it is developed through class discussion.

Ask the students to determine: (a) the total market for the product, (b) its market segments (who will buy the product), (c) the basis used to segment the market (age, sex, marital status, etc.), and (d) the types (the range and quality) of products or services most likely to appeal to each target group segment.

Bicycles: Total market is most active people.

Market Segments	Basis for Segmentation	Product for Each Segment
Children	age	tricycles, trainer bikes small bikes, bikes with "banana" seats
Racers	special interest	racing bikes, 10-speed bikes
Senior Citizens	age	Three-wheel bikes, easy up-keep bikes, bikes with three gears for easier up hill and down hill rides
Commuters	occupation, location	fast, practical bikes, folding bikes

5. Distribute the student worksheet "Market Segmentation" and conduct a class exercise in market segmentation:

   a. Tell the class: Let's suppose that the total market for automobiles is everyone with a driver's license.

   b. Ask the students for examples of the different types of cars that are available, (e.g., small economy cars, sports cars, large American cars, station wagons, recreation vehicles, trucks, etc.). These will be the products for each segment.

   c. Write these responses on the board as they fill in their worksheets.

d. Ask the class to identify some specific market segments, (e.g., racers, pleasure drivers, delivery persons, taxi drivers, campers, etc.).

e. Ask them to identify the specific consumer characteristics that may influence the consumers' product preferences in selecting and purchasing a car, that is, the basis for segmentation. (For example, commuters or people traveling long distances daily would be attracted to small economical cars, large families would be attracted to large American cars, persons spending many of their weekends camping would be attracted to recreational vehicles.)

6. Conduct a small group exercise in market segmentation:

   a. Divide the class into groups of four or five students each.

   b. Assign a type of business to each group and an address where the business is located (using main streets in the community or those close to the school, as appropriate).

   c. Distribute a Community Profile Sheet to each group of students (see beginning of this unit for instructions on preparation).

   d. Explain the rules of the exercise:

      i. Each group is to make a market analysis of the local community by segmenting the potential customers into groups, using the profile sheet and their own knowledge of the community.

      ii. Each group is to select products and services for these groups, according to the type of business assigned.

      iii. Once products and services have been selected for market groups, each business group should determine what products and services will be most salable. The students should consider the types and quality of products, the nature of the consumer market, and the extent of existing competition in the community.

   e. Instruct the groups to prepare a list of products and services that they would choose to include for sale, and the justification for each choice in terms of their market segmentation.

7. Summarize. A businessperson must (1) establish that people need his or her product and are willing to buy it; (2) identify the total market and segment it; (3) choose an appropriate target market; (4) define his or her target customers in terms of the demographic, social, cultural and psychological characteristics which influence their buying behavior; and (5) appeal to his or her target customers via those characteristics.

INSTRUCTIONS TO TEACHERS FOR PART D

PREPARING A COMMUNITY PROFILE

From sources such as the Chamber of Commerce or City or Town Hall, the teacher should obtain the following kinds of information:

1. The size of the community. (Community may be defined as a whole town, a local neighborhood within a city, or a major business area in a city. The "local community," however, should be an area that is well known by virtually all the students.)
2. The approximate ages of community residents, by percentage. (If statistics on age are hard to find, the instructor should make an educated estimate based on his or her own knowledge.)
3. A list of special characteristics about the community (e.g., near the high school, next to the senior citizens home, across the street from a factory, etc.).
4. The income range for the community. (If statistics on income are unavailable or difficult to obtain, the instructor should make an estimate based on knowledge of the community).

The instructor should also prepare a list of businesses that are appropriate for the community location, to be assigned to each class group (e.g., businesses that are the same as or similar to those that actually exist). In addition, the instructor should pre-select addresses or specific site locations at which each of the businesses is hypothetically situated.

The small group exercise may. of course, be varied. These instructions provide the basic outline for the small group exercise in Part C of this Unit.

WORKSHEET

MARKET SEGMENTATION

Criteria for market segmentation must be measurable and information about market segments must be accessible. Not all characteristics are important for all products or services. Possible characteristics:

- Age
- Sex
- Family status
- Income
- Occupation
- Geographic location
- Physical characteristics
- Others:

Product:

Basis for Segmentation	Market Segments			

PART E: IDENTIFYING YOUR COMPETITION

1. Define competition. Once products and consumers are identified, the competition needs to be assessed. Focus on single questions as geographic spread, price range, special submarket appeal and so forth. In the retail business, for example, your most direct competition may come from well established stores that have attracted a loyal clientele. In manufacturing and service businesses, competition comes from large industries that can discount prices because of the high sales volume. It is vital to determine the extent and the nature of your competition.

2. Propose a few local business types and have students name local stores that are and are not competitors. (For example, Pizza Hut Restaurant--competition: "Joe's Pizza House," "Blue Bell Diner"; non-competitors: the restaurant of the Hotel Ritz, Swank Chateau Restaurant, etc.).

3. One way to determine your competition is to identify places where your customers compare prices, quality, and equivalent services of what you sell. Any business that rivals yours for customer purchases is your business' competition.

4. Explain to students that the Yellow Pages of the telephone directory provides valuable information about competitors, as well as other information, to the potential or current entrepreneur. The uses proposed in this exercise represent only some of what can be learned from the Yellow Pages.

5. Distribute the Student Worksheet, "The Yellow Pages," to students. (This exercise can be done in class, in which case students should be asked to bring a copy of the Yellow Pages from home for this exercise. Alternatively, it can be assigned as homework, in which case discussion will take place on the following class day.)

   Ask students to follow the instructions in "Electric." How do their estimates compare with the actual number of headings? Tell students that the Manhattan Yellow Pages has 108 headings under "electric." Each of these represents an opportunity for the entrepreneur.

6. Ask students to propose possible explanations for the fact that there are many more feature advertisements for restaurants than for grocers. Possible answers:

   - Restaurants have a higher profit margin and can therefore afford more feature advertisements.

- There are more restaurants than grocers, making the restaurant business more competitive; restaurant owners therefore have to advertise more heavily.

- People usually patronize grocery stores in their neighborhood, while they are willing to go further for a restaurant: wide-area advertising is therefore less sensible for grocery stores than for restaurants.

- Because restaurants are often more specialized than grocery stores, they need to advertise their special characteristics, such as location, kind of food, atmosphere, etc.

7. Competition for a restaurant is not only other restaurants. Students should define the competition in terms of:

    - customer market segments
    - specialty vs. "American" foods
    - cost
    - hours
    - geographic area

8. Stress that the Yellow Pages can provide a wide variety of potentially useful information.

    Ask class to suggest other uses (e.g., ordering supplies, developing mailing lists, getting marketing ideas, finding contacts for getting into business). Finally, stress its most obvious use--advertising. Remind students to start a business before the Yellow Pages are published, or they may not be listed for up to a year.

9. Optional homework assignment: have students name a type of business that they would like to be involved in. Using the Yellow Pages of their phone book at home, have them identify their potential competition. They can also mark the locations of competitors on a map. This information will form part of their Marketing Research Report to be turned in at the end of Unit III.

WORKSHEET

THE YELLOW PAGES

"Electric"

1. Without opening the Yellow Pages yet, take a guess on the number of different headings (not individual listings) to be found under "electric"--electric appliances, electric contractors, electric heaters, and so forth. Reference headings, or those which refer you to another category (Electric flashlights: see "flashlights") count in the total.

2. After you have made an estimate, count the actual headings under "electric" in your Yellow Pages. How does the total compare with your estimate?

3. Suggest some of the headings which could be useful to an electrician ordering parts, assessing the competition, or deciding how to advertise.

Grocers and Restaurants

1. Compare the Yellow Pages sections under "Grocers" and "Restaurants." Which contains more feature advertisements?

2. Think of possible explanations for the difference.

3. Choose one restaurant from the Yellow Pages. List its competitors and give reasons for your choice.

UNIT IV: LOCATION

SUMMARY: The choice of location is one of the early and important decisions in establishing a small business. Through problem solving exercises and a simulation, the unit emphasizes the many factors involved in this decision, and models ways of conducting the necessary research.

STUDENT LEARNING OBJECTIVES:

- Apply decision making strategies to personal case studies.
- Identify common and specific criteria for business locations.
- Identify and consult appropriate sources of information.
- Analyze information on available locations.
- Select the locations which most closely meet the stated criteria.

TEACHING STRATEGIES:

Part A: Problem Solving: discussion, information sheet.

Part B: Location Decisions: simulation (in Volume III)

MATERIALS PREPARATION:

Part A: Duplicate "The Six Steps of Decision Making."

Part B: See simulation overview (and instructions in Volume III)

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

4. "Michael Boone." Two white men pass up a black-owned restaurant because they feel they would not be welcome there; Michael Boone, the restaurant owner, wonders how to attract white patrons to his restaurant.

Other Mini-Problems:

5. "Odd Jobs Service." Given a choice of being a publicity person, a treasurer, a coordinator, or a worker, students are asked to explain their preference in terms of their individual talents.

15. "Alice Niles." Confronted with an electrical inspector who is soliciting a bribe for passing sub-standard wiring in the tavern Alice Niles is about to open, students decide what she ought to do.

24. "Drama in the Laundromat." Students are asked to put themselves in the place of the owner of a Laundromat who has discovered that an employee has been stealing, and to decide what they would do about it.

42. "Beverage Business." Students propose advantages and disadvantages of expanding a drive-through beverage business to an additional location.

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Vorzimer, Louis H. Using Census Data to Select a Store Site, Small Marketers Aid No. 154, Washington, D.C.: SBA 1974.

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Simulation Games and Gaming:

Heitzmann, Wm. Ray. Educational Games and Simulations, National Educational Association, Washington, D.C., 1974.

Livingston, Samuel A. and Stoll, Clarice Stasz. Simulation Games: An Introduction for the Social Studies Teacher, Free Press, New York; 1973.

Stadsklev, Ron. Handbook of Simulation Gaming in Social Education, Part I, Institute of Higher Education Research and Services, the University of Alabama, 1974.

PART A: PROBLEM SOLVING

1. Ask students if they think business owners or business employees make more work-related decisions? Why? Ask them if there is a difference in the consequences of decisions made by business owners or employees? Why?

2. Explain that since business owners make so many decisions and such consequential ones, it is essential to be able to make them well. One of the reasons so many businesses fail is because their owners do not know how to make careful, informed decisions.

3. Distribute "The Six Steps of Decision Making" to students. Ask them to read it.

4. In the problem below, you may wish to have students work it out entirely on their own or to do the first two steps with them in class, according to the needs of the class. They can complete the problem in class or as a homework assignment.

5. PROBLEM: Choosing a course. Read the following to students. Imagine that you have room in your schedule next semester for one more course. Let's say that Course A and Course B are both very interesting and you are having a hard time deciding between them. Tell students that they are to follow the model in "The Six Steps of Decision Making" to determine how they would make their decision.

6. As a guide for you, the answers are given below:

   Step 1. Define the problem. Should I take Course A or Course B?

   Step 2. Identify what you need to know. Some factors in the choice are:

   a. When the class meets

   b. How good the teacher is

   c. How much homework there is

   d. How interesting the course content is

   e. Whether the course content is helpful to my long-range educational or career goal

   f. How hard a grader the teacher is

   Step 3. Decide how to get the information. For each factor identified in Step 2:

   a. School catalog, handbook, or registrar's office

   b. Former students

c. Former students and/or teacher

d. Teacher, then evaluate personally

e. Teacher, then evaluate personally

f. Former students

Step 4. Gather your information. Get information from sources identified in Step 3.

Step 5. Weigh the facts. Note whether each factor is an advantage or a disadvantage for you personally. For example:

		Course A	Course B
a.	Class time:	Okay	Okay
b.	Teacher:	Excellent	Very good
c.	Homework:	A lot	Moderate amount
d.	Course content:	Very interesting	Very interesting
e.	Helpful to goal:	Definitely	Probably
f.	Grading:	Hard	Average

Factors a and d are equal, so they may be put aside. Factor b may also be put aside since both teachers are more than acceptable. The decision therefore rests on factors c, e, and f: these must be weighed in light of current circumstances and future needs.

Step 6. Make your decision. Based on the preceding analysis, one can decide to take Course A now, Course B now, Course A now and B later, or Course B now and A later.

7. Tell students that this way of making a decision is valuable because it isolates components of the decision so that they can be examined one by one.

8. If your students would benefit from additional problems, you can select one or more of these, make up some yourself, or ask student to propose some.

- I have two job offers: night manager in a hotel and salesperson in a ritzy clothing store. Which one should I accept (or should I hold out for a better offer)?

- I have a week's vacation time coming up. Should I stay home or go away?

- I need a car, and I can get a large American car second-hand or a new small foreign car for the same price. Which should I buy?

9. To make the exercise more difficult, propose problems with many possible solutions:

   - I'd like to find a new place to live and am considering all options: rent a house, buy a house, rent an apartment, buy a condominium, buy a co-op, live by myself, live with roommates, buy a house and advertise for roommates, move into a house with pre-existing roommates, sublet a house, sublet an apartment, etc.

INFORMATION SHEET

SIX STEPS OF DECISION MAKING

1. Define the problem.

In order to make a decision, you need to understand exactly what the problem is. State it as clearly and as accurately as possible. This is an important step, and shouldn't be rushed.

2. Identify what you need to know.

Every problem can be subdivided into factors (elements, components, parts). Analyze the problem to identify what factors you need more information about in order to make a decision.

3. Decide how to get the information.

For each factor you have identified, decide where the information is most likely to be found. This could be in a book or by asking someone who is knowledgeable about what you need to know.

4. Gather your information.

Make sure the information you gather corresponds to what you need to know and that it is complete enough for your purposes. Make sure it is accurate: did you ask someone for information whose opinion is biased for some reason?

5. Weigh the facts.

Although the information you have gathered is true in general, your problem is particular to you. Include now your own preferences and abilities as you consider possible solutions, since a solution that is good for someone else may not be good for you.

6. Make your decision.

Looking at all the factors (step 2), the information you gathered for each one (step 4), and your individual preferences and abilities (step 5), make the decision that

- gives you most of what you want and need
- gives you least of what you don't want and don't need

If you feel that some of the information you need can't be obtained, this will make your solution a little uncertain. You should take this into account, so that if you find out this information later, you will know what to do with it.

PART B: OVERVIEW OF "LOCATION DECISIONS"

"Location Decisions" is a simulation game in which students obtain and evaluate information about several potential business locations in light of location requirements specific to their game businesses.

A simulation is a carefully designed learning activity that is intended to foster learning in a specific content area as well as provide practice in one or more basic skills. It is experiential learning, where the rules students follow and the roles they play approximate those found in the "real world." As such, simulations have a number of advantages: they are fun to play, they encourage students to experiment with different strategies and decisions in a no-risk environment, and they give players an immediate sense of what the similar situation in the real world is actually like.

In Location Decisions, the specific content area taught to students is the process for choosing a location for a small business; the basic skills practiced are problem solving by analysis and logic, decision making, and constructive group interaction to achieve a common goal. It simulates the research, analysis, and decision making a person must do to select an appropriate business location.

Students play the roles of small business partners selecting locations for a pharmacy, a hardware store, and a convenience food store. Each partnership of two or three students is provided with a description of its business and a list of location requirements. There are nine locations for rent, each with different characteristics; none is perfect. Players obtain information about the sites from maps--a street map of the community, maps showing the features of the immediate neighborhood as one would see them by driving past the site, and Chamber of Commerce maps showing demographic data such as crime rate, income, age and family status, and bus routes. They also obtain information about the locations from "Information Sheets" of six sorts:

- Personal inspection of building
- Walking tour of neighborhood
- City Planning Office
- Visit with former tenant
- Visits with neighbors
- Follow-up visits to location

Players are limited in the time they can spend to collect the information, with each source of information costing "time units." (In the real world, one's time is indeed limited.)

When partners have obtained sufficient information and evaluated it, they make a first, second, and third choice of location. They then draw "chance cards" to see if they have gotten their first choices, to reflect the fact that in the real world this does not always happen. Partners fill out score sheets, in which scores are calculated on the basis of how appropriate the location is for their business (as shown in the "basis for location ranking" charts); the costs for rent, insurance, and needed renovations; and the time units used. The partnership with the highest resulting "sales prospect score" is declared the winner.

As game administrator, the teacher prepares the materials, introduces the simulation, monitors the use of time and materials, directs the scoring, and guides the discussion after the simulation.

The game requires four to six class periods to play, including introduction, play, scoring, and post-game discussion.

All game materials are contained in
Volume III, "Location Decisions."

UNIT V: SYSTEMS AND RECORDS

SUMMARY: In order to keep track of a business' revenues, expenditures, inventory, payroll, and payroll deductions, the entrepreneur must develop a complete record-keeping system for both day-to-day and long range documentation of the business' operations.

STUDENT LEARNING OBJECTIVES:

- Explain the functions of record-keeping in inventory, payroll, in tracking revenues and expenditures, and in personnel.
- List and describe the basic forms which provide documentation of the business' operations.

TEACHING STRATEGIES:

Part A: Administrative Systems and Records: lecture, class exercise, and homework project.

Part B: Financial Systems and Records: 1) Procedures for Recording Revenues from Sales: lecture; 2) Recording Expenditures for the Business: lecture; 3) Completing the Forms for Revenues and Expenditures: class exercise, homework project

Part C: Personnel Records: lecture, classroom exercise, and homework project

MATERIALS PREPARATION:

Part A: Duplicate "Vendors in the Yellow Pages," "Tracking the Merchandise," In-Class Case Study "Business Records," "Company Order Form," "Daily Receiving Log," "Sales Slip Forms," "Semi-Annual Inventory Sheet," and prepare three copies per student of "Invoices."

Part B: 1. and 2.: no preparation.

3.: Duplicate: In-Class Case Study "Recording Revenues and Expenditures," "Forms for In-Class Exercise" (6 pages), Homework Case Study "Recording Revenues and Expenditures," "Monday to Friday: Daily Forms" (5 pages), "Weekly Forms" (page 1--2 copies per student; pages 2-5--1 copy per student).

Part C: Duplicate "Personnel Records Fact Sheet," "Payroll Register," "Federal Income Tax Withholding Schedule," "Social Security Employee Tax Table." Duplicate two copies per student, "Employee's Withholding Allowance Certificate" and "Employee's Earning Record."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

6. "Yvette Burke." Yvette Burke is faced with the necessity of earning more money when she is divorced after 23 years of marriage; she analyses her skills and identifies small businesses she might be interested in.

Other Mini-Problems:

17. "Leonard Nessman." Students devise a security system for Leonard Nessman, a watchmaker, to protect watches he repairs while they are in his possession.

20. "Gentle Inferno." Herb, the owner of a hardware store, must decide whether to stock artificial fireplace logs characterized as "new and improved" to justify their higher selling price, even though the changed formula actually results in lower production costs to the manufacturer.

28. "Recordkeeping." Students devise an inventory system for a clothes resale shop.

43. "Drug Store Chain." Students decide which information needs in a chain of ten drug stores would benefit from a uniform record-keeping system, and if there are any records best kept on an individual store basis.

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Breibart, Joan, and Edward Smykay. Introductory Marketing: A Programmed Approach, New York: The MacMillan Company, 1971.

______________, "Improving Material Handling in Small Business," Small Business Management Series No. 4, Stock No. 045-000-00041-9, Washington, D.C.: Small Business Administration.

______________, "Financial Recordkeeping for Small Stores," Small Business Management Series No. 32, Stock No. 045-000-00142-3, Washington, D.C.: Small Business Administration.

______________, Your Business Tax Kit, Department of the Treasury, Internal Revenue Service.

PART A: ADMINISTRATIVE SYSTEMS AND RECORDS

A.1 Business Systems and Procedures

1. Explain to the class that a business must have a systematic procedure for ordering new merchandise or supplies, keeping track of the merchandise that they have on hand, documenting the sale of merchandise, and tracking customer payments. Point out that different businesses have different requirements for ordering, taking inventory, and maintaining sales records. For example:

   - A drug store or a hardware store may have thousands of small items which must be inventoried on a detailed basis while a rug cleaning business has little need for such a procedure.

   - A grocery store which carries perishable goods will be concerned with the date that inventory was received, while a furniture store is less concerned with the time factor.

   - A retail store offering credit will need a detailed sales record for merchandise to ensure that the customer is charged for exactly what was purchased, while a supermarket deals entirely on a cash sale basis.

2. Tell the students that once a business is established, orders are generally placed with the same set of vendors. The business does not usually "shop around" for each purchase in the same way a retail customer "shops around." The reasons for this include:

   - Inefficiency in the expenditure of time looking for new vendors for each new order.

   - The special relationships which are accrued over time in doing business together. For example:

     -- The vendor's sales representative may provide the retailer with specific services such as inventorying, ordering when the vendor's supplies run low in the retail store and offering credit.

     -- The vendor's sales representative may provide the retailer with information about new products or future products which will appear on the market.

     -- The vendor's sales representative may provide materials for or actually set up promotional displays in the store, and may share the cost of advertising.

   These relationships vary with the type of business and the type of product or service being purchased.

3. Ask the class for examples of instances when a retailer may wish to find new vendors. These might include:

    - Dissatisfaction with a particular line or brand or products supplied by the vendor, who can offer no substitute.
    - Lack of sufficient credit line offered by the vendor.
    - A new line of products which are not carried by the vendor.
    - Better prices or special "deals" consistently offered by another vendor.

4. Tell the class that there are several sources of information available to business with respect to identifying new vendors. These include:

    - The Yellow Pages
    - Trade manuals, such as the Dun & Bradstreet Manual, Thomas's, etc.
    - Trade association meetings, directories

5. Explain that orders are placed in several different ways, including visits by a sales representative to the retail business, by telephone, and/or by mail.

6. Point out that ordered goods are also received in different ways. These include delivery by truck to the retail store, mail or long distance delivery, and retailer pick up. Examples of each would be:

    - One of the most common modes of merchandise transport is regularly scheduled drop offs by delivery trucks. This is especially true when manufacturer or distributor supplies must be delivered several times a week or month and the manufacturer or distributor is relatively nearby. This would include perishable products such as bread and dairy products to a grocery store, quick turnover products such as cigarettes or candy bars, locally bottled soft drinks, etc.
    - Long distance delivery is often required for large, bulky items with a slow turnover, such as cars, or items which are produced in a single geographic area in the country, such as furniture made in North Carolina, pottery made in Georgia, or medicine produced in New Jersey.
    - Retailer pick up is used whenever the retailer must visit the supplier to select specific items such as produce or cuts of meat.

    Many businesses combine all these modes of delivery, depending on the merchandise characteristics.

7. Define and describe the process of taking inventory. Taking inventory is essentially the counting of all unsold products or unused items for service that the business has in stock at a particular time. There are two purposes for taking inventory.

   a. An annual inventory is conducted for accounting purposes to determine whether the business was profitable during a given year. The annual inventory can also record what the total inventory investment was according to each type of product and according to each supplier.

   b. An interim inventory is undertaken at intervals throughout the year to provide the businessperson with information about the volume of sales for each type of product sold by the business. This information is vital for reordering and can provide the entrepreneur with important marketing data about items that are selling well and those that are not.

8. Point out that the small businessperson can take inventory in several ways:

   a. An entrepreneur who wants an approximate count of products may estimate on the basis of looking over the stock on the shelves and counting packed cases in the storeroom. This method may be sufficient for either of the purposes discussed earlier. It is usually not sufficient, however, for a certified accounting of the business' liquid assets.

   b. When an entrepreneur wants an exact count of products, each item on the shelves must be counted and combined with a count of packed cases of products. This procedure would be appropriate for a business having its accounts certified.

   c. A wholesaler's salesperson may offer inventory-taking as a service to small business customers. This service is significant to the very small business which employs just one or two people, since inventory-taking can be a tedious and time-consuming activity. The supplier is also able to make specific recommendations about reordering, based on the inventory results.

   d. "Perpetual inventory" may be taken by adjusting a record of goods purchased when each item is sold. This is done with computerized cash registers and terminals now affordable by many small businesses. "Perpetual inventory" gives the businessperson very precise information at all times but does not replace the annual physical inventory required by tax law.

9. Emphasize that the difficulty and complexity of taking inventory depends on the type of business and the products that are stocked. For example, a variety store or a drug store often has thousands of small items to be separately counted and recorded by product type, manufacturer, and supplier. A hairdresser or a store selling large appliances would have fewer items and perhaps only a few suppliers and manufacturers.

10. Discuss product ordering. The entrepreneur will reorder items at various intervals throughout the year, depending on the sales volume of each type of product and the cycle of deliveries that can be made. There are several primary factors which will determine how much the business will order at a given time:

    a. The need for new goods, e.g., raw materials for manufacturers, products for retail sale, supplies for service business.

    b. The product's sales record as determined by the inventory figures. As noted earlier, the supplier is often an excellent source of information about ordering.

    c. The cash or expected funds that are available for the purchase of new stock.

    d. The amount of storage space that is available.

11. Distribute the Information Sheet, "Purchasing and Shipping," to students. Discuss the diagram and steps 1 through 5, asking for suggestions on simplifying the process or minimizing paperwork. For instance, the invoice might be attached to the packing slip, to reduce mailing costs. You might ask how many times the information on the purchase order is copied. Are all these copies necessary?

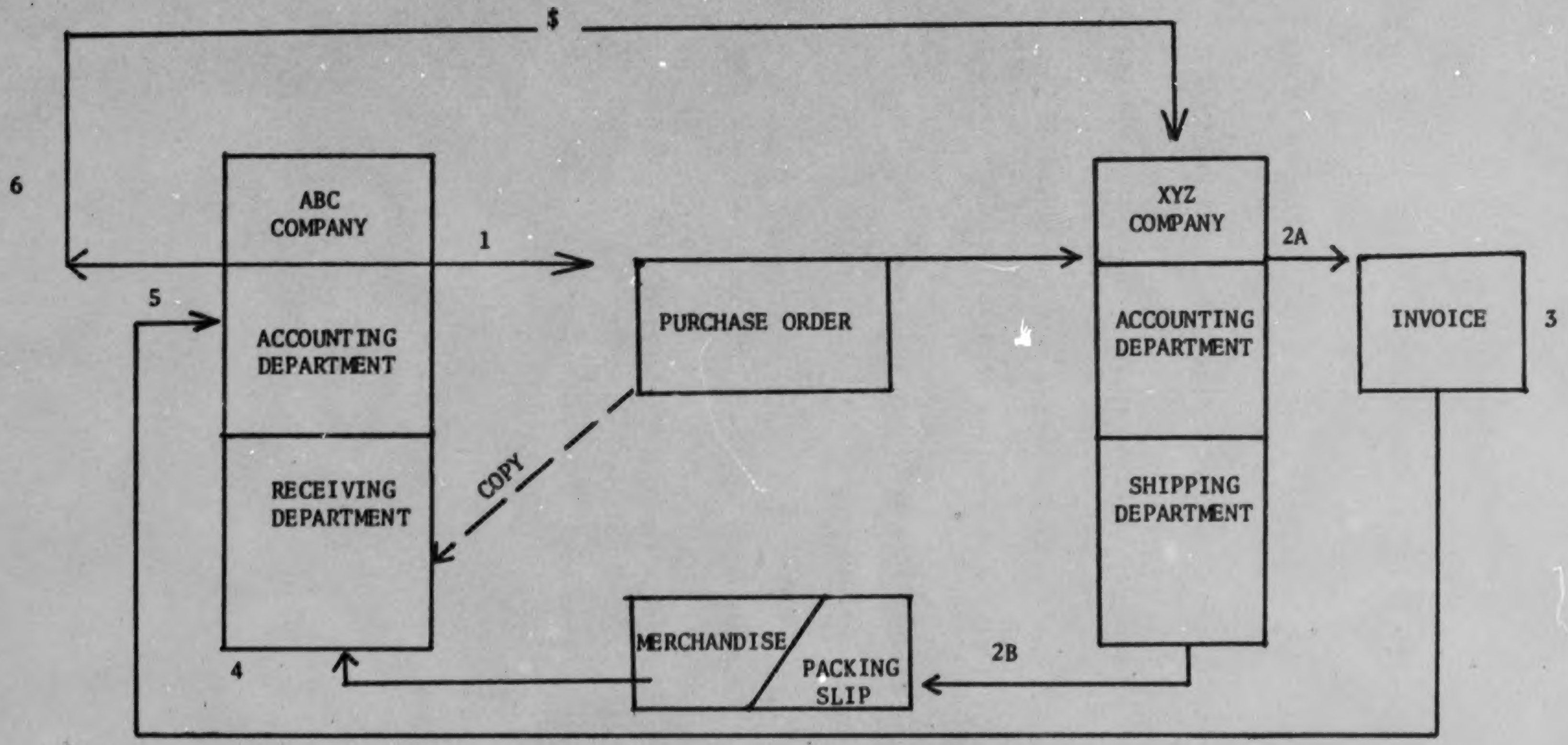
12. Stress that some items may be seasonal, or that special supplier or producer discounts for large quantity orders may also be factors to consider in determining what to order and how much. Ask the students for examples of seasonal items, e.g., holiday decorations, swimwear or winter coats in some areas, fruits and vegetables in most climates).

13. Summarize inventory-taking and ordering. Taking inventory helps the entrepreneur to determine how much capital is tied up in stock and provides valuable information about future ordering.

14. Explain to students that the Yellow Pages of the telephone directory provides information about sources of inventory as well as other valuable information to the potential or current entrepreneur. The uses proposed in this exercise represent only some of what can be learned from Yellow Pages.

15. Distribute the Worksheet, "Vendors in the Yellow Pages" to students. This exercise can be assigned as homework, and discussed in class the following day.

INFORMATION SHEET
PURCHASING AND SHIPPING



V-S-107

ABC Company wishes to order MERCHANDISE FROM XYZ COMPANY A LOCAL VENDOR

1. ABC generates a purchase order authorizing XYZ to ship merchandise.
2A. XYZ generates an invoice for goods ordered; 2B. XYZ generates packing slip which accompanies goods to ABC.
3. Invoice is sent to ABC Company.
4. Receiving Department checks merchandise against package slip and copy of purchase order. (Back-ordered merchandise are noted)
5. ABC Accounting Department receives invoice for payment.
6. Payment for merchandise is made to XYZ.

WORKSHEET

VENDORS IN THE YELLOW PAGES

Using a copy of your city's Yellow Pages, identify different vendors needed for any three of the businesses listed below. Indicate:

a. The heading under which the listing appears in the Yellow Pages;

b. The types of products or services which each vendor would appear to provide; and

c. Which vendor(s) would probably be the best choice for each business if it is located in a central downtown area. Use your imagination to identify other needs each business may have, in addition to those listed.

1. A seafood restaurant needs food suppliers and laundry services.

2. A plumbing shop which carries plumbing parts and tools.

3. A neighborhood grocery store.

4. A moving service which needs rental trucks and vans on a long-term lease basis.

5. A daycare center which needs toys, craft supplies, and educational materials.

6. An insurance company which needs office supplies and office furniture.

A.2. Business Records

1. Explain to the class that it is critical to the business to maintain a well organized and up-to-date set of business records to ensure that the entrepreneur knows exactly:

   - What items to cover.
   - What items are on hand and their worth.
   - How much creditors owe the business.
   - Whether and how much the business is growing or declining.

   Point out that, in the same way different types of businesses have different procedural requirements, different types of businesses also have different record-keeping needs. For example:

   - A cash-and-carry grocery store must maintain documentation of orders, receipts, and sales. A market providing a delivery service must also maintain a written record of the initial order and a customer receipt form. If the market also offers credit, it must maintain customer account records to determine how much the customer owes the store over

   - A pharmacy with a broad product line and mix must maintain detailed records of deliveries from and orders to each of the vendors which supply it. A Ford automobile agency, on the other hand, needs to keep order and receipt records for only one merchandise supplier, the Ford Motor Company.

   - The inventory sheet for a hardware store may express the quantity of very small merchandise, such as nails, in terms of pounds rather than number of items. A retail clothing firm, however, needs to know how many items it has on hand, not how much they weigh.

2. List the basic records which are common to many businesses.

   - An order form - generated by the receiver (sometimes by the supplier)
   - A receipt log - generated by the receiver
   - An invoice - generated by the supplier
   - An inventory sheet - generated by the receiver
   - A sales slip - generated by the receiver/seller

   Stress that the formats for each type of record may vary considerably among businesses, even for those of the same type. The basic information to be obtained on any form is that which the businessperson must have to keep track of incoming merchandise and outgoing merchandise, incoming revenue and outgoing revenue.

3. Distribute blank forms of the five types listed above to the class. Explain the purposes of each form while the class examines the format.

- The order form is generated by the business to various vendors who supply merchandise. The order form tells the vendor how much and what is needed. An order form is used whenever new or fresh merchandise is required.

- A receiving log is used to document and acknowledge the arrival of merchandise that has been ordered. It is especially useful when a business deals with many different types of products which are supplied by many different vendors or distributers. It provides a basis for keeping track of incoming merchandise and for determining which orders have not yet been filled.

- The invoice is essentially a bill submitted by the vendor or supplier to the receiver of goods. The invoice may be submitted at the time a single order is sent out by the supplier or mailed at specified intervals, reflecting more than one order.

- The inventory sheet may be of two types: those which are used for an inventory of merchandise, and those which serve as an ongoing tally of sales and receipts. The former is used for annual or interim inventories which are conducted for accounting purposes (i.e., to find how much of the business' money is tied up in existing inventory, what products are selling well, what products are not selling well). The latter is used as a basis for determining which items to reorder, given existing supplies. This may be done on an inventory form, by an informal tally, or most recently, automatically by an electronic cash register which automatically compiles on ongoing inventory by recording the sale of each specific item.

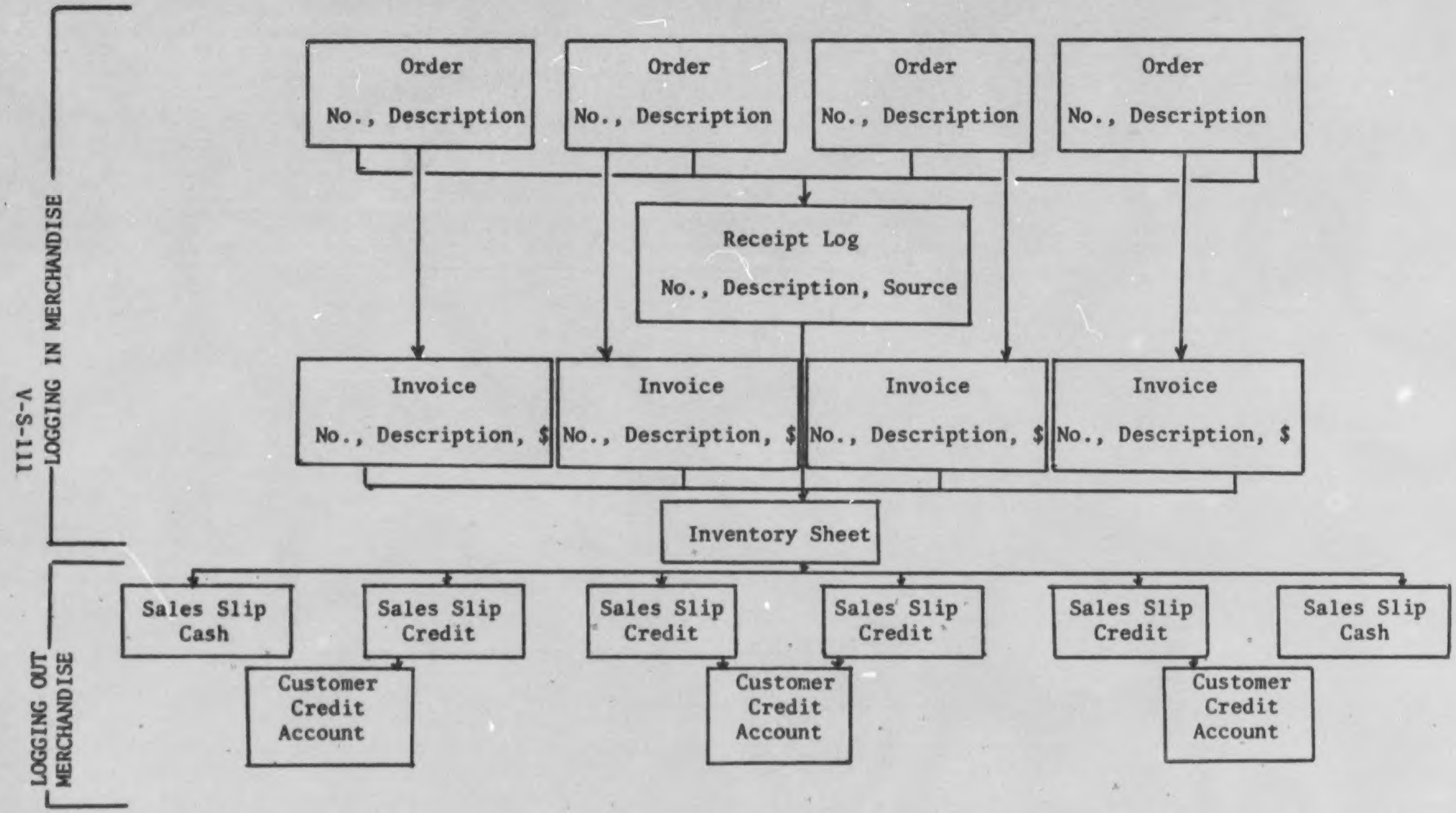
- A sales slip is essential to record the sale of merchandise purchased on credit since it provides a business with the amount owed by the customer. It is also a good way to provide customers with a record of their purchase, even if it has been paid for in cash. A second copy of the slip, retained by the business, is one way to keep track of inventory. Some sales slips are designed to obtain customers' names and addresses in addition to recording the sale in order to develop mailing lists, etc. A sales slip may also be used to document the provision of a service, such as window cleaning, in addition to documentation of the sale of a product.

4. The graphic chart "Tracking the Merchandise" is a useful tool for showing the relationships and functions of each type of form. The chart may be drawn on the board or handed out as student materials.

5. Distribute the in-class case study, "Business Records." Read through the problems in class. Using the questions following the study, fill in each of the forms.

INFORMATION SHEET

TRACKING THE MERCHANDISE



IN-CLASS CASE STUDY
"BUSINESS RECORDS"
QUESTIONS AND ANSWERS

1. Complete an order form for each supplier of garden merchandise, using a date last week.

To Hothouse Suppliers, Inc.

50 - 5 lb. bags potting soil	@ 2.70 ea	$135.00
75 - clay pots	@ .66 ea	49.50
20 cases plant food	@15.00 ea	300.00
	Total	$484.50

To Burpee Seeds

200 assorted pkgs. vegetable seeds	$25.00

To New World Garden Supplies

25 rakes	@ $5.00	$125.00
10 hoes	@ 7.50	75.00
20 shovels	@ 8.00	160.00
100 trowels	@ 1.00	100.00
	Total	$460.00

2. Complete the daily log for today's and yesterday's delivery.

Yesterday's log:

Hothouse Suppliers, Inc.	clay pots 55 @ $.66 ea	$ 36.30
Hothouse Suppliers, Inc.	20 cases plant food @ $15.00	300.00
Hothouse Suppliers, Inc.	50 5-lb bags potting soil @ $2.70	135.00
Burpee Seeds	200 ass't. vegetable seeds	25.00

Today's log:

New World Garden Supplies		
	25 rakes @ 5.00	125.00
	10 hoes @ 7.50	75.00
	20 shovels @ 8.00	120.00
	100 trowels @ 1.00	100.00
Hothouse Suppliers	20 clay pots @ .66	13.20

3. Prepare an invoice for each supplier to mail to the John L. Thayer Co.

   (Use order form example with total amounts owing)

4. Prepare sales slips for customers

Elmer Bittleson:

20 pkgs. seed @ .35 ea	$ 7.00
4 bags potting soil @ 3.50	14.00
1 rake	8.00
1 hoe	12.00
1 trowel	1.25
Cash Total	$ 42.25

Marion Feldman:

8 clay pots @ 1.00	$ 8.00
2 bottles plant food @ 2.00	4.00
9 bags potting soil @ 3.50	31.50
Charge Total	$ 43.50

Fred Hernandez:

12 bags potting soil @ 3.50	$ 42.00

Charge

Irma Shelton:

1 trowel @ 1.25	$ 1.25
1 hoe @ 12.00	12.00
Cash Total	$ 13.25

5. Complete the inventory sheet:

Potting soil	25 bags
Pots	67
Plant food	198 bottles
Hoes	8
Rakes	24
Trowels	98
Shovels	20
Seeds	180 packets

IN-CLASS CASE STUDY

BUSINESS RECORDS

Mike Thayer inherited the John L. Thayer and Son hardware store from his father five years ago. The business is stable and each year since his father retired Mike has expanded its product line slightly to reach more customers through different kinds of merchandise and more services. Last year, in fact, he broke the tradition of the company and offered customers credit for the first time. Mike has, however, continued to do business with the supply companies which served his father, since the relationship is well established and the vendors provide the hardware store with 30 day credit for merchandise received and inventory services at no additional cost.

Last week, Mike placed a series of orders for garden equipment, which is an entriely new line of business for John L. Thayer and Son. When the sales representative from Hothouse Suppliers, Inc. arrived, Mike handed him an order for 250 lbs. of potting soil sold in individual 5 lb. bags at $2.70 wholesale ($3.50 retail); 75 clay flower pots at $.66 each wholesale ($1.00 retail); and 20 10-bottle cases of plant food costing $15.00 a case (which will sell for $2.00 a bottle). He also mailed an order to Burpee Seeds for 200 assorted packets of vegetable seeds for which he will pay a bulk rate of $25 and which he intends to sell for $.35 a piece. He placed still another order with New World Garden Supplies for 25 rakes, 10 hoes, 20 shovels, and 100 trowels; the rakes will cost him $5.00 each (retail $8.00), the shovels will cost him $8.00 each (retail $12.50), and the hoes will cost him $7.50 each (retail $12.00). For the trowels he will pay $1.00 a piece and he will resell them at $1.25.

Yesterday a store employee, Ed Minch, arrived early to find the delivery man from Hothouse Suppliers ready to unload the order. When Ed logged in the order, however, he compared the delivery with the original order and found that 20 flower pots were missing. The delivery person promised to bring them the next morning. At noon, the Burpee seeds were delivered as ordered and logged in by Mike. The next morning the entire order from New World Garden Supplies was received, as were the missing flower pots from Hothouse Suppliers.

By five o'clock that day four people had made purchases which included the new merchandise. Elmer Bittleson bought 20 packages of vegetable seeds, 4 bags of potting soil, 1 rake, 1 hoe, and 1 trowel. He paid cash for the purchase, so Ed did not keep a copy of the sale for the company. He did, however, enter each sale on the ongoing inventory sheet. Marion Feldman arrived soon afterward and charged 8 clay pots, 2 bottles of plant food, and 9 bags of potting soil. Because she charged the purchase, Ed did keep a copy of her sales slip for the company records. He also entered each item onto the ongoing inventory list. Fred Hernandez bought 12 bags of potting soil and charged it to his account. Irma Shelton purchased a trowel and a hoe for cash.

Tonight Ed and Mike must take a semi-annual inventory of all the goods in the store, including the new garden supplies. To do this, they will use the ongoing inventory tally sheets and take an actual count of all the merchandise in the store and in the storeroom.

IN CLASS EXERCISES AND QUESTIONS

1. Complete an order form for each supplier of garden merchandise, using a date last week.
2. Complete a daily log for deliveries made yesterday and for today's deliveries.
3. Prepare an invoice from each supplier to mail to the John L. Thayer and Son hardware store.
4. Prepare sales slips for each of the four customers who purchased garden supplies.
5. Prepare an inventory sheet for the semi-annual inventory, showing how many of each garden supplies remain in stock at the time of the inventory.

INVOICE FORM

Sold To: ______________________
____
____

Invoice No.

Date:

Distributer Order No.

Customer Order No.

Terms:

Due Date:

Shipped Via:

Quantity	Description	Unit Price		Total	

V-S-117

PURCHASE ORDER FORM

DATE____________________

AGENT____________________ ADDRESS____________________

Quantity	No.	Description	Price		Net Amount	

DAILY
RECEIVING LOG M T W T F S DATE________________

Supplier	Description	Pieces	Rec'd By	Amount		Credits		Balance	

DAILY
RECEIVING LOG M T W T F S DATE________________

Supplier	Description	Pieces	Rec'd By	Amount		Credits		Balance	

DATE________________ SEMI-ANNUAL INVENTORY SHEET

Description	Number	Unit	Wholesale Value		Retail Value	

V-S-120

SALES SLIP FORMS

SALES SLIP

DATE____________________________

CUSTOMER________________________

STREET__________________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE____________________________

CUSTOMER________________________

STREET__________________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE____________________________

CUSTOMER________________________

STREET__________________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE____________________________

CUSTOMER________________________

STREET__________________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

PART B: FINANCIAL SYSTEMS AND RECORDS

B.1. Procedures for Recording Revenues from Sales

1. Explain to the class that this section of the unit will deal with tracking the money that comes into and goes out of the business. In addition to cash taken in or paid out, many businesses operate on credit. This means that the business must also track what they owe to their creditors, such as vendors, banks, etc. and what is owed to them by customers who have "charged" goods and services. The first section of this exercise will deal with accounting procedures for money coming into the business on a day-to-day basis from sales. The second section will discuss accounting procedures for money that is paid out of the business for inventory and miscellaneous items which are needed to run the business. The third section will involve learning how to complete the forms that are commonly used to track revenues and expenditures.

2. Point out to the class that there are two basic types of revenues from sales:

   - Cash: full payment for merchandise or services at the time of purchase, either in currency or checks.

   - Credit: delayed payment for merchandise or services until some future billing date.

   Each of these revenues requires a different type of accounting procedure to keep track of the money received or owed.

3. Cash sales are generally recorded at the time of sale when the purchase is rung up on a cash register. In most cases, the cash register will record each sale and, depending on the capabilities of the register, many also provide total sales rung up for a given business day and cumulative totals for a business week. These totals are then used as a record against which an actual cash count may be compared.

   Some businesses, such as those conducted from home and a mobile unit (cleaning service, knife and skate sharpening service, home repairs, etc.), may find a cash register to be too cumbersome. For these types of businesses, the amount of cash received must be manually documented on a "cash received" ledger.

4. Cash sales are documented by a sales slip which is given to the customer. The sales slip may be similar to that discussed in the last unit or it may be a cash register tape. In either case, the sales slip provides the customer with a proof of payment, in case

merchandise must be returned or services are found wanting. The business, as a rule, does not need such documentation, beyond the original recording of the amount of purchase at the time the sale is made.

5. Credit sales. Cash is considered "money in hand" for the purposes of business records. Credit, on the other hand, is considered "money owing" or "accounts receivable," since the customer has only promised to pay for his or her purchases at a future time. Credit is handled as a "current asset" until the debt or bill is paid; when it is paid, it then is dealt with as "cash." Tell the class to remember this distinction, as it will be important in discussing the summary financial records, such as the income statement, the balance sheet, and the cash flow statement in the final unit of the curriculum.

6. Explain that credit has undergone considerable changes in the past decades.

   - Early credit was originally given only to customers who were well known to a business. The business "trusted" the creditor to repay the debt. Examples of this type of credit still exist at small "mom and pop" grocery stores which draw heavily on the patronage of the same neighborhood customers.

   - The next stage in the evolution of credit was the single store or business account which allowed customers to purchase merchandise or services without payment for a specified period of time, usually 30 days. The debt owed at the end of the thirty-day period was most often due in full at that time. Many stores still have single store charge accounts which require customers to provide specific information about their financial situation. In this case, specific knowledge about the customer's ability to repay, in some measure, replaces personal knowledge or "trust" in the customer.

   - Within the past two decades, area-wide charge cards have gained popularity. This involves a third party--a credit card company--which screens applicants for credit, provides card and undertakes billing services. These companies provide customers with credit at many different types of stores within a given geographical area. The customer applies for credit by providing financial and personal information about his or her ability to repay. Various businesses participate in the credit arrangement voluntarily. Many of the area-wide charge accounts are called "revolving accounts" since the customer need only pay a percentage of the total amount due each month. The credit card company charges interest on the unpaid balance, as they are, in fact, lending the consumer the amount of the unpaid balance.

- A recent and now widespread form of credit is similar to the area-wide charge account except that it may be used nationally and internationally. Some require customers to repay the entire amount charged at the end of each billing period, but most offer revolving accounts.

7. Note that the different forms of credit and repayment may have varying effects on the business' ability to collect for charges.

   a. Informal credit, such as that provided by a neighborhood grocer, may be difficult or impossible to collect. The major recourse open to the business that offers this type of credit is to refuse further credit to individuals who do not repay their debts. In fact, some businesses project in advance the amount of money which they will lose to bad debts in a given year and treat it as a liability.

   b. Formal credit or charge accounts which require the customer to provide specific information are usually backed by a "contract" between the customer and the store or credit card business.

      - Where a single business offers its own charge accounts, collection for unpaid debts is the responsibility of the business. The recourse open to the business for collection are (1) ending further charge privileges, (2) legal recourse through the courts, or (3) sale of the bad debt to a collection agency whose function is to obtain payment for the bad debt. The debt, however, cannot usually be sold for its full value, since the collection agency is assuming the risk of non-payment.

      - Where credit is offered by a third party and is applicable to many different businesses, the customer is billed directly by the credit card firm, not by the stores from which purchases were made. In some cases, the credit card companies will only provide the original seller with the amount of a customer's debt, after the customer has paid the credit card company.

      - Some credit card companies now "guarantee" payment of charges made in stores or businesses. This means that the credit card company will pay the original seller of an item in full regardless of whether the customer has paid a bill or not. The obvious advantage to this system for the small business is that it reduces the risk of extending credit.

8. Point out that a formal credit plan usually costs the business something to operate, whether the cost is in the expenditure of money to collect amounts receivable or whether the cost is part of the agreement with a third party credit card company. The new business owner will have to consider (1) whether the business can afford to extend credit (i.e., assume the risk, handle the accounting and paperwork for submitting bills, and pay the postage; or afford the services of a third party credit card company, and (2) the extent to which it is necessary to extend credit in the type of business one is in (i.e., how big the business is, what the customers expect or demand, and the nature and frequency of contact with customers).

9. List the essential forms that are used to track money coming into a business:

- Cash Sales - Cashier's Daily Report
  Actual Cash Count

- Credit Sales - Sales Slips or Receipts (covered in Part A)
  Customer Accounts Statement (covered in Part A)
  Accounts Receivable
  Customer Bills

10. Explain the function of each form:

- A cashier's daily report records the cash register reading for the previous business day, the cash register reading for the current day at close of business, and the amount of money taken in during the current business day. For example, if a cash register reading taken at the opening of business reads $400 and the reading taken at the close of business is $600, the difference of $200 represents the amount of money taken in during the course of the current business day.

- An actual cash count, also known as "proving the cash register," is an exact count of the number of bills and coins of each denomination that are in the cash register at the close of business or at some other regular point in the business day. The number of bills and coins is multiplied by the dollar or cents amount of each to determine the total amount of cash in the register. The total amount of cash should exactly equal the difference between the cash register reading for the previous day and the current day at close of business. The exception to this rule will be the documentation of petty cash expenditures, discussed in the following section.

- Sales slips provide a record of the credit extended for each customer who purchased something without paying for it at the time of purchase. One copy of the sales slip is given to the customer as a receipt for his or her records and as a reminder of the amount owed. A second copy is retained by the business for its records. A third copy will also be necessary if credit is obtained through a third party credit card company for the latter's records.

- Customer accounts are individual records for each credit customer, showing the amount owed over the billing period, the amount paid by the customer in response to a bill, and the balance.

- Accounts receivable are an aggregate of customer accounts The total amount owed by each customer, the total amount paid by each customer, and the balances are added together for a complete picture of the amounts initially receivable, the amounts received, and the amounts still receivable. The accounts receivable are organized as an alphabetized listing of customers, amounts owed, amounts paid, and balances.

- Customer bills reflect the information contained on customer account cards and the accounts receivable form. These forms are sent to customers to let them know how much they owe and how much they must pay. Recent federal legislation requires that the bill specify and explain any interest charges on revolving accounts or incomplete payment of the total balance.

- Vendor invoices are essentially the vendor's bill to the retailer. The invoice will tell the retailer the total wholesale amount owed for merchandise received. An invoice may be paid upon delivery of merchandise or at a later time--as for credit--depending on the policy of the supplier and receiver.

11. Tell the class that they will be filling out these forms at the end of the unit.

B.2. Recording Expenditures for the Business

1. Explain to the class that expenditures for the business means tracking all the money that is spent in the course of the business. In most cases, expenditures will consist of checks written to cover bills outstanding or actual cash paid out for smaller items which the business needs.

2. A different type of "expenditure" is not always a direct expenditure but a crediting of a customer's account for merchandise which has been returned for cash or credit. The business' policy determines the ground rules for return of merchandise or refund of customer payment. This transaction is called a "sales return." Another type of transaction involves documenting specific discounts or allowances that are made for certain customers, since this represents the difference between the amount that would usually be taken in for sales and the amount that is actually taken in. Examples of discounts or allowances include an offer for trade-ins, reduced prices for clergy or the elderly, and discounted merchandise that is either damaged or has been used for display.

3. Point out that business expenditures that are large and/or regularly payable are usually paid by check since this is a practical method of payment. Smaller amounts spent at irregular intervals may be taken from a petty cash fund which has been reserved for this purpose, or directly from the cash register. In either case, it is important to document how much was spent and the purpose of the expenditure, in order to keep track of where the money has gone.

4. Ask the class for examples of "petty cash" expenditures and check payment expenditures. These would include:

Petty Cash Expenditures	Check Payment Expenditures
Consumable supplies such as paper, pens, etc.	Salary or wage checks
Postage	Payment to vendors for inventory received
Gasoline and small truck repairs	State and federal taxes
Cleaning supplies	Mortgage, long term debt, and rent payments
	Electricity bills

5. List the essential forms for recording and keeping track of business expenditures:

- petty cash vouchers
- a checkbook and check stubs
- vendors'invoices
- accounts payable

6. Explain the purpose of each type of form:

- Petty cash vouchers are made out to record the expenditure of cash on hand.

- The checkbook is to make certain types of payments, usually those which are fairly large and/or predictable.

- The checkstub is the record of money spent by check; it is functionally like the petty cash voucher except that it keeps track of money spent by check, rather than cash. A primary purpose of the checkstub is also to keep a record of business deposits, withdrawals, and the balance of the company's account.

- Vendors' invoice statements are analogous to bills for merchandise received. This may involve merchandise that is eventually to be sold retail or it may involve merchandise that will be consumed or used in the course of business, such as a case of paper, books, etc.

- Accounts payable statements are a consolidated statement of the money owed by the business. For long term debts or partial payments, the accounts payable statement also keeps track of balances due on existing debts.

B.3. Completing Forms for Revenues and Expenditures

1. Distribute the forms package to the class. The package should contain:

   - cashier's daily report
   - actual sales count report
   - sales slips
   - credit/refund slips
   - customer account statements
   - accounts receivable statement
   - customer bills
   - petty cash vouchers
   - checks and check stubs
   - accounts payable statement
   - monthly income statement (sample)
   - in-class case study

2. Go through each form with the class. Divide the forms into those necessary for recording revenues, those for recording expenditures and those used to record both revenues and expenditures.

   - Revenue records include actual cash count, sales slips, accounts receivable, and customer bills.

   - Expenditure records include petty cash vouchers, checks and check stubs and accounts payable.

   - Revenue and expenditure records include cashier's daily report, credit/refund slips and monthly income statement.

3. Explain to the class that the sales slip is identical to the one presented in the previous section of this unit. Note that sales slips are necessary for financial record keeping as well as tracking merchandise and documenting sales.

4. Read the in-class case study, "Rrecording Revenues and Expenditures," aloud to the class. Identify each form and list it on the board. Using the case study for information, work through each set of forms in class. Complete the forms in the following order: sales slips, credit slips, petty cash vouchers, actual cash count, cashier's daily report, customer account statements, accounts receivable statement, customer billing forms, accounts payable, and checks and check stubs. Use the questions at the end as a guide for completing each of the forms. (An income statement will not be prepared in this unit. It will be covered in "Financing Your Business.")

IN-CLASS CASE STUDY
"RECORDING REVENUES AND EXPENDITURES"
ANSWERS

1. Sales slips for Merle's Tires will include:

a. Jackie Groggin

4 FR 78/14 tires @ $50.00 ea.		$200.00
	Tax	10.00
Charge		$210.00

b. Mike Nelson

4 ER 78/14 tires @ $32.25 ea.		$129.00
	Tax	6.45
		$135.45
	- Down Payment	29.00
Charge	Owing	$106.45

c. Morton Quip

4 DR 68/13 tires @ $60.00 ea.		$240.00
	Tax	12.00
		$252.00
	- Down Payment	120.00
Charge	Owing	$132.00

d. Ann Mellon

2 BR 78/13 tires @ $48.00		$ 96.00
	Tax	4.80
Charge		$100.80

2. Petty Cash Vouchers

1.	$12.00	Stamps
2.	$10.00	Office Supplies
3.	$ 5.00	Cleaning Supplies

3. Credit slip for Mike Nelson:

1	ER 78/14 tire @	$32.25
	Tax	1.61
		$33.86

Defective rim Credit Account

4. Mike Nelson

1	FR 78/14 tire @	$38.00
		1.90
Charge		$39.90

5. Actual Cash Count:

7 x 20 = $140.00
5 x 10 = 50.00
5 x 5 = 25.00
13 x 1 = 13.00
10 x .25 = 2.50
20 x .10 = 2.00
30 x .05 = 1.50
100 x .01 = 1.00
1 x check = 29.00
$264.00

Cashier's Report

1. 100.00
2. 100.00
3. 149.00
4. 149.00
5. 0
6. 264.00
7. 264.00
8. 0

6. Customer Accounts

a. Jack Groggin

Charge	4 FR 78x14 tires @ $50.00	$200.00
	Tax	10.00
		$210.00

b. Mike Nelson

Charge	4 ER 78x14 tires @ $32.25	$129.00
	Tax	6.45
		$135.45
Payment		29.00
		$106.45
Credit		33.86
Adjusted Balance		$ 72.59
Charge 1 FR 78x14 tire @ $38.00		38.00
	Tax	1.90
New Balance		$112.49

c. Morton Quip

Charge	4 DR 68x13 tires @ $60.00	$240.00
	Tax	12.00
		$252.00
Payment		120.00
Balance		$132.00

d. Ann Mellon

Charge	2 BR 78x13 tires @ $48.00	$96.00
	Tax	4.80
		$100.80

7. Accounts Receivable:

	Total Owing	Total Owing This Month	Balance Owed
Groggin, J.	210.00	70.00	140.00
Mellon, A.	100.80	33.60	67.20
Nelson, M.	112.49	37.50	74.99
Quip, M.	132.00	44.00	88.00
Total Owing	555.29		
Total Owing This Month		185.10	
Balance Owed			370.19

8. Use information from customer accounts.

9. Accounts Payable:

Firestone Tires	$3,622.00
General Tires	1,547.00
Goodyear Tires	1,013.00
Total	$6,182.00

10. (1)
TO: Firestone

Bal. Bro. For'd	$6,000.00
Amt. Deposited	202.06
Total	$6,202.06
Amt. this check	1,811.00
	$4,391.06

TO: Firestone Tires $1,811.00

One Thousand eight hundred eleven and no.

(2)
TO: General Tire

Bal. Bro. For'd.	$4,391.06
Amt. Deposited	0
Total	$4,391.06
Amt. this check	1,547.00
	$2,844.06

TO: General Tire $1,547.00

One thousand five hundred forty-seven
and no.

(3)
TO: Goodyear

Bal. Bro. For'd	$2,844.06
Amt. Deposited	0
Total	$2,844.06
Amt. this check	1,013.00
	$1,831.06

TO: Goodyear $1,013.00

One thousand thirteen and no.

5. Distribute a second set of forms and the homework case study, and ask students to complete all forms for this case study after class.

HOMEWORK CASE STUDY
ANSWERS

DAILY FORMS: MONDAY

Sales Slips:

1.	1 ruby ring	$2,000.00
	2 stick pins @ $250 ea.	500.00
	Sales Tax	125.00
	Total Sale	$2,625.00
	(Charge)	
2.	1 belt buckle	$ 25.00
	Sales Tax	1.25
	Total Sale	$ 26.25
	(Cash)	
3.	1 cluster ring	$1,600.00
	Sales Tax	80.00
	Less down payment	600.00
	Total Owing	$1,080.00
	(Charge)	

Petty Cash Voucher

$11.00 for cleaning supplies

Actual Cash Count:

11	$20	$220.00
12	10	120.00
26	5	130.00
34	1	34.00
51	.25	12.75
65	.10	6.50
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,126.25

Cashier's Daily Report

1. $500
2. 626
3. 1,126
4. 0
5. 1,126
6. 1,126
7. even

DAILY FORMS: TUESDAY

Sales Slips:

4.	1 pr. earrings	$1,250.00
	1 jade brooch	1,300.00
	2 buckles @ $100 ea.	200.00
	Sales Tax	137.50
	Total Sale	$2,887.50
	(Charge)	
5.	1 charm bracelet	$1,000.00
	1 stick pin	75.00
	Sales Tax	53.75
	Total Sale	$1,128.75
	(Charge)	

Actual Cash Count

17	$20	$340.00
15	10	150.00
24	5	120.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,247.30

DAILY FORMS: TUESDAY (CONTINUED)

6.	1 ring	$56.00
	Sales Tax	2.80
	Total Sale	$58.80
	(Cash)	
7.	1 watch	$85.00
	Sales Tax	4.25
	Total Sale	$89.25
	(Cash)	

Cashier's Daily Report

1. 1,126.25
2. 148.05
3. 1,274.30
4. 0
5. 1,274.30
6. 1,274.30
7. even

DAILY FORMS: WEDNESDAY

Sales Slips:

8.	1 silver buckle	$ 65.00
	1 silver buckle	45.00
	Sales Tax	5.50
	Total Sale	$115.50
	(Charge)	
9.	2 gold bracelets	$200.00
	Sales Tax	10.00
	Total Sale	$210.00
	(Cash)	

Petty Cash Voucher:

$50.00 paid to Zeus Printers for bags.

Actual Cash Count

27	$20	$540.00
15	10	150.00
26	5	130.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,484.30

Cashier's Daily Report

1. 1,274.30
2. 210.00
3. 1,484.30
4. 0
5. 1,484.30
6. 1,484.30
7. even

DAILY FORMS: THURSDAY

Sales Slips:

10.	2 pins	$210.00
	Sales Tax	10.50
	Total Sale	$105.00
	(Cash)	
11.	1 jade brooch	$2,500.00
	Sales Tax	125.00
	Total Sale	$2,625.00
	(Charge)	
12.	1 ring	$100.00
	Sales Tax	5.00
	Total Sale	$105.00
	(Cash)	

Actual Cash Count

32	$20	$640.00
15	10	150.00
27	5	135.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,589.30

Cashier's Daily Report

1. $1,484.30
2. 105
3. 1,589.30
4. 0
5. 1,589.30
6. 1,589.30
7. even

DAILY FORMS: FRIDAY

Credit Account Form

1 buckle	$65.00
Sales Tax	3.25
Total Amount Returned	$68.25

Sales Slips:

13.	1 buckle	$40.00
	Sales Tax	2.00
	Total Sale	$42.00
	(Charge)	
14.	Misc. silver charms	$35.00
	Sales Tax	1.75
	Total Sale	$36.75
	(Charge)	

Actual Cash Count

32	$20	$640.00
18	10	180.00
28	5	140.00
43	1	43.00
51	.25	12.75
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,626.05

Cashier's Daily Report

1. 1,589.30
2. 36.75
3. 1,626.05
4. 0
5. 1,626.05
6. 1,626.05
7. even

WEEKLY FORMS

Customer Accounts:

Little, A.M.	Ring	2,000.00	100.00			
	Stickpins	500.00	25.00			2,625.00
Nicholson, F.	Ring	1,600.00	80.00	600.		1,080.00
Reubens, E.	Ring	1,250.00	62.50			
	Brooch	1,300.00	65.00			
	Buckles	100.00	5.00			2,682.00
Jenkins, E.	Bracelet	1,000.00	50.00			
	Stick pin	75.00	3.75			1,128.75
	Buckles	110.00	5.50			1,244.25
	Buckle				-68.25	1,176.00
	Buckle	40.00	2.00			1,218.00
Sanders, M.	Pins	200.00	10.00			210.00
Kaminsky, M.	Brooch	2,500.00	125.00			2,625.00

Accounts Receivable	Total Charges This Month	Minimum Payment	Balance Owing
Little, A.M.	2,625.00	262.00	2,362.00
Nicholson, F.	1,080.00	108.00	972.00
Reubens, E.	2,682.00	268.20	2,413.80
Jenkins, E.	1,218.00	121.80	1,096.20
Sanders, M.	210.00	21.00	189.00
Kaminsky, M.	2,625.00	262.50	2,362.50

Customer Billing Forms:

Little, A.M	2,625.00	00.00	2,625.00
Nicholson, F.	1,080.00	00.00	1,080.00
Reubens, E.	2,682.00	00.00	2,682.00
Jenkins, E.	1,218.00	00.00	1,218.00
Sanders, M.	210.00	00.00	210.00
Kaminsky, M.	2,625.00	00.00	2,625.00

Accounts Payable		Charges	Payment	Balance
Elm Tree Estate	date	2,850.00	2,850.00	00.00
Harbinger Estates	date	2,300.00	2,300.00	00.00
Lionel Auctions	date	5,850.00	2,925.00	2,925.000

Checks and Check Stubs:

1.

No. 1	$2,850.00
Date	
Elm Tree Estates	
Merchandise	
Bal. Bro. For'd	10,000.00
Deposit	4,104.05
Total	14,104.05
Amt. this Check	2,850.00
Balance	11,254.05

2.

No. 2	$2,300.00
Date	
Harbinger Estates	
Merchandise	
Bal. Bro. For'd	11,254.05
Deposit	0
Total	11,254.05
Amt. this Check	2,300.00
Balance	8,954.05

3.

No. 3	$2,925.00
Date	
Lionel Auctions	
Merchandise	
Bal. Bro. For'd	8,954.05
Deposit	0
Total	8,954.05
Amt. this Check	2,925.00
Balance	6,029.05

IN-CLASS CASE STUDY
RECORDING REVENUES AND EXPENDITURES

Last month Merle's Tires, Inc. opened its doors on Main Street. Merle is carrying several different brands of tires and has stocked nearly every tire size imaginable to serve her customers' needs. She decided to allow customers to purchase merchandise on an interest free 90-day credit plan which requires repayment in three equal payments over 90 days following the sale. Merle herself bought the initial merchandise on credit, since she wants to maintain her $6,000 business bank account in case of emergency in the first weeks of business.

Merle has set aside a petty cash fund of $50 for small, immediate expenditures needed to operate the business every day. She has also set up the cash register with $100.00 worth of cash in the following denominations:

2	$20 bills
4	$10 bills
2	$ 5 bills
3	$ 1 bills
10	$.25 coins
20	$.10 coins
30	$.05 coins
100	$.01 coins

At the end of the first day of business, Merle had sold three sets of tires (four tires for each sale) and one set of snow tires (two rear tires only). Each sale was subject to a 5% state sales tax. The first sale was made to Jackie Groggin for her delivery truck. Jackie chose to charge her purchase--four Goodyear FR 78 X 14 tires at $50 each--and repay on the 90-day credit plan. Mike Nelson bought four General ER 78 X 14 tires for a total of $129 for all four. He wrote a check for $29 as a down payment and will repay the balance in two equal installments within the next 90 days. Morton Quip bought four steel belted radials and paid cash for half his purchase of $240 (five $20's, one $10, and ten $1's). He will pay the full balance next month. Ann Mellon bought two General snow tires for $48 each. She charged her entire purchase and will repay in three equal installments over the next 90 days. During the course of the day, Merle went to the post office to buy $12.00 worth of stamps for postage and to the local variety store to purchase $10.00 worth of office supplies and $5.00 worth of cleaning supplies. All these expenditures were made from petty cash.

On the following Thursday, Mike Nelson returned with one tire which was defective and already losing air. Merle credited his account for the price of the tire; since she did not have an exact replacement, she sold him a Goodyear FR 78 X 14 tire for $38.00. Mike charged the new tire.

Last week Merle prepared her first set of customer account cards, using sales and credit slips as an information source. She then completed an accounts receivable statement which consolidated her customers' debts into a single alphabetized list and provided totals for payments received and amounts owing. Based on this, she prepared customer billing forms for mailing. She also received manufacturers' invoices for the merchandise which she had obtained on credit at the time her store opened. These included:

No.	Description of Item	Price	Total
From Firestone Tires:			
26	Radial Ply HR 70 X 15	$47.00	$1,222.00
12	Steel belted DR 68 X 13	35.00	420.00
20	Radial Ply ER 60 X 14	39.00	780.00
		TOTAL OWING	$3,622.00
From General Tire:			
26	BR 78 X 13	28.00	728.00
18	ER 78 X 14	23.00	414.00
15	GR 78 X 14	27.00	405.00
		TOTAL OWING	$1,547.00
From Goodyear Tire:			
14	HR 72 X 15	29.00	413.00
10	FR 78 X 14	32.00	320.00
7	FR 78 X 15	40.00	280.00
		TOTAL OWING	$1,013.00

Today Merle received several payments as a result of last week's mailing of customers' bills. Mike Nelson sent a check for $50.00, Jackie Groggin for $70.00, and Ann Mellon for $33.60. She decided to deposit these payments, in addition to the cash taken in during the first day of business, before paying her creditors. These deposits were added to the bank balance of $6,000. She then wrote checks to her suppliers. Goodyear and General Tire were paid in full. The Firestone bill was divided into two equal payments, one of which was paid in full today and another which will be paid in two weeks.

IN-CLASS EXERCISE
COMPLETING FORMS

1. Complete the four sales slips which Merle made out on her first day of business. The total should reflect the amount owing. The bill should also document the amount paid down.

2. Complete the three petty cash slips which Merle will need to document her expenditures for office supplies and postage. How much is remaining in petty cash after these expenditures? ($23)

3. Complete the credit slip for Mike Nelson. Remember that the credit slip will be used in addition to the sales slips to determine Mike's balance for billing.

4. Complete a sales slip for Mike's purchase on Thursday.

5. Complete the actual cash count form and the cashier's daily report form, using the information contained in the case problem. Remember the actual count of money in the register at the end of the day (item 7 on the cashier's daily report) should equal the register reading at the start of current day plus sales for the day.

6. Using the sales and credit slips, prepare the customers' account cards for each of the four charge customers in the case study.

7. Using the customer account cards, prepare an accounts receivable form for the business.

8. Using the customer account card and the accounts receivable, prepare the customer billing form for the four charge customers in the case study.

9. Complete an accounts payable form, using the information provided in the manufacturer's invoices in the case study.

10. Write checks and adjust bank balance on checkstubs for each of the manufacturers to whom Merle owes money.

DAILY FORMS: MONDAY

1.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

2.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

3.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

PETTY CASH VOUCHER

Date ______________________

Amount $ ______________________

Purpose of Expenditure ________

____

____

CASHIER'S-DAILY REPORT

Cashier ______________________

Date ______________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

Petty Cash Vouchers

Date ____________________

Amount $ ____________________

Purpose of Expenditure ______

____

____

Date ____________________

Amount $ ____________________

Purpose of Expenditure ______

____

____

Date ____________________

Amount $ ____________________

Purpose of Expenditure ______

____

____

Credit Account Form

Quantity	Items	Price
	Subtotal	
	Tax	
Total Amount of Return		

Reason for Return ____________________

____

Date ____________________

Customer Signature ____________________

Cash Refund ______ Credit Acc't. ______

Sales Slip

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash	Subtotal		
Charge	Sales Tax		
Down Payment	TOTAL		

WEEKLY FORMS

Customer Accounts

Name ____________________

Address ____________________

Account No. ____________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Weekly Forms, con't.

Accounts Receivable:

For the Month of ______________________

Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Customer Billing Form:

Customer Name ______________________________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name ______________________________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Customer Billing Forms, con't.

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Accounts Payable:

For the month of ________________________

Vendor Name	Date	Charge	Date	Payment	Balance

Checks and Check Stubs:

No.________$_________
Date__________________
To____________________
For___________________
Bal.Bro.For'd.________
Deposit_______________
Total_________________
Amt.This Ck._________
Balance_______________

No.________

Date________________

Pay to the Order of______________________________

____

First National Bank
09-341-6785-01 ______________________

Checks and Check Stubs, con't.

No.________ $________
Date____________
To____________
For____________
Bal.Bro.For'd.________
Deposit____________
Total____________
Amt.This Ck.________
Balance____________

No.________

Date____________

Pay to the Order of________________________

____

First National Bank
09-341-6785-01
____

No.________ $________
Date____________
To____________
For____________
Bal.Bro.For'd.________
Deposit____________
Total____________
Amt.This Ck.________
Balance____________

No.________

Date____________

Pay to the Order of________________________

____

First National Bank
09-341-6785-01
____

HOMEWORK CASE STUDY
RECORDING REVENUES AND EXPENDITURES

Jo and Alan Stern operate a small antique jewelry store which has attracted the attention of collectors throughout the state. They usually obtain their merchandise through auctions and private estate sales which occur at irregular intervals throughout the year. For example, the Sterns recently acquired $11,000 worth of new merchandise within only a two week period, since a great deal of top quality jewelry happened to become available at that time. Since the Sterns must respond quickly to opportunities to buy, they often purchase new inventory on credit and repay their vendors, either in full at the end of the month or in two equal payments over the next two months. They also extend credit to many of their customers. Each customer must pay a minimum of 10% of the total bill each month.

The Sterns have developed an extensive knowledge about the value of the merchandise they buy and sell, particularly with respect to the amount they are willing to pay to acquire it and the amount they are able to sell it for. Many of their customers, however, are also extremely knowledgeable about the value of the antique jewelry items so the Sterns often allow a certain amount of bargaining to settle differences of opinion between buyer and seller. To the agreed-upon price, they must, of course, add a 5% sales tax.

The Sterns' shop is small but adequate for the display of the valuable items which they carry. The only equipment in the shop is a cash register which provides them with daily totals at the beginning and end of each day. Jo and Alan begin the week with $500 cash in the register to provide change for cash sales. On Friday each week they deposit anything over the $500 in their business bank account. When they receive vendors' invoices, they make prompt payment by check from the same account. On Monday of last week, money was in the cash register in the following denominations:

Bills		Coins	
11	$20's	50	$.25's
10	10's	65	.10's
25	5's	40	.05's
33	1's	100	.01's

They also keep a petty cash fund of $100 for immediate expenditures. This money is kept separately, however, in a locked drawer.

The following is a record of the business transactions which took place two weeks ago, since the acquisition of the new inventory. It also describes the recordkeeping procedures the Sterns followed to keep track of the money they took in and they paid out.

Monday

Jo began the week with the sale of a ruby ring for $2,000 and two pearl stick pins for $250 each to Arthur M. Little. Since Arthur has done business with the Sterns for many years, Jo was happy to let him charge his purchases, knowing that he will promptly pay at least the minimum portion of his bill (10 percent of the total) at the end of the month's billing period. She wrote up the sales slip in duplicate and gave one copy to Arthur with his merchandise.

She later sold a small silver buckle to a woman who had not been in the store before. The sale was made for cash in the amount of $25. The woman handed her two $10's, one $5, and $1 and one $.25. Jo made out a sales slip, but since the sale was for cash, she did not keep a copy for the store.

In the afternoon, Jo sold a diamond cluster ring to Fred and Norma Nicholson for $1600. Although the Nicholsons have not charged anything before, Jo accepted a check for $600 and told the young couple that the balance could be paid in ten equal installments over the next ten months. When she made out the sales slip, she put down the total amount of the ring, plus tax; she then subtracted the amount of the down payment from the total. She did, of course, make a duplicate copy of the sales slip for the store, since the purchase was charged.

At the end of the day, Jo took $11 from petty cash and spent it all on cleaning supplies for the store. She recorded the withdrawal on a petty cash voucher.

Tuesday

Alan made an unexpected sale at the beginning of the day to Emily Reubens, a nationally known collector of antique jewelry. She bought a pair of diamond and emerald earrings for $1,250, a jade brooch for $1,300 and two silver buckles for $100 each. Because she is so well know to the antique jewelry trade, Alan immediately extended her credit and told her that she would be billed at the end of the month.

He then sold an intricate charm bracelet and a stick pin to Ed Jenkins, a regular charge account customer for many years, for $1,000 and $75 respectively. Ed asked Alan to keep an eye out for a gold watch chain and to let him know when one was available.

Several people came into the store together to browse. One chose a ring for $56 and paid for the purchase with one $20, three $10's, eight $1's and eight $.10's. Another selected a watch for $85 and handed Alan five $20's. Alan gave him two $5's and three $.25's in change.

Wednesday

Edward Jenkins returned to the store to tell the Sterns how pleased he was with his initial purchase. He then purchased two silver belt buckles, for which Alan charged him $65 and $45 respectively. The amount of the new purchases was added to Ed's charge account bill.

Jo then sold several gold bracelets for $210, including tax. The customer gave her exact change, ten $20's and two $5's.

Late in the day, Zeus Printers, Inc. delivered an order of bags with the store logo printed on the front. Alan paid the driver $50 from the petty cash fund.

Thursday

In the morning, Jo sold two cloisonne pins to Mark Sanders for a total of $210 plus tax. The purchase was charged to Mark's account and Jo kept a copy of the sales slip for the company.

Alan sold an exquisite jade broach to Marian Kaminsky for $2,500, adding that amount to her charge account. He kept a copy of the the sales slip for the store records.

At the end of the day, two elderly women came into the store to purchase an enamelled ring for $100 (plus tax) as a gift for a great-niece. They paid Alan five $20 bills and one $5 bill for their purchase.

Friday

Edward Jenkins arrived to return the $65 belt buckle because it was too large to serve the purpose for which it was intended. He selected another belt buckle to replace it for $40. Alan credited Ed's charge account for the $65 return and wrote up the final purchase as a separate charge sale.

At the end of the day, two new customers purchased several silver charms that the Sterns had had on hand for some time. The total amount of the purchase, including tax, was paid with three $10's, one $5, one $1 and three $.25's.

Late on Friday afternoon, Jo and Alan went over their accounts for the week. They first updated the customer account cards, using the information from the sales and return slips which they had completed for each credit transaction during the course of the week. They then prepared an accounts receivable statement, which consolidated the amounts owed by each customer. Finally, they prepared the customer billing forms and mailed them at the close of the business day.

The Following Friday

Once again, the Sterns sat down with their weekly accounts. The mail during the week had contained a number of invoices for recently purchased merchandise, including:

From Harbinger Estates, Inc.

2 diamond cluster rings	$1,000.00
1 pr. diamond/emerald earrings	950.00
6 stick pins	350.00
Total Amount Owed	$2,300.00

From Lionel Auctions, Ltd.

6 cloisonne pins	$1,200.00
2 ruby rings	1,950.00
2 jade brooches	1,700.00
2 gold watches	1,000.00
Total Amount Owed	$5,850.00

From the Elm Tree Estate Sale

10 sterling silver buckles	$ 500.00
5 stick pins	250.00
1 jade brooch	800.00
2 ruby rings	1,300.00
Total Amount Owed	$2,850.00

The mail also contained several payments from credit customers, including:

F. and N. Nicholson	$108.00
E. Jenkins	400.00
A. M. Little	750.00
M. Sanders	220.50
M. Kaminsky	1,500.00

Since the business' bank balance is a bit low--$10,000--the Sterns deposited the customers' payments and all the cash received during week before writing checks to their vendors. They paid Harbinger Estates and Elm Tree Estates in full; Lionel Auction was paid half the total amount owed.

Using the information given in this case study, complete all the appropriate business forms.

DAILY FORMS: MONDAY

SALES SLIP

Date____________________________

Name____________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

SALES SLIP

Date____________________________

Name____________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

SALES SLIP

Date____________________________

Name____________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

SALES SLIP

Date____________________________

Name____________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

CASHIER'S DAILY REPORT

Cashier____________________________

Date____________________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

DAILY FORMS: TUESDAY

4. SALES SLIP

Date________________________

Name________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

5. SALES SLIP

Date________________________

Name________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

6. SALES SLIP

Date________________________

Name________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

7. SALES SLIP

Date________________________

Name________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

CASHIER'S DAILY REPORT

Cashier________________________

Date________________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
	Total Cash in Drawer		

DAILY FORMS: WEDNESDAY

8.

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

9.

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

PETTY CASH VOUCHER

Date ______________________

Amount $ ______________________

Purpose of Expenditure ______

____

____

Cashier's Daily Report

Cashier ______________________

Date ______________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

Cash Count

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

DAILY FORMS: THURSDAY

10. SALES SLIP

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

11. SALES SLIP

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

12.

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

CASHIER'S DAILY REPORT

Cashier ____________________

Date ____________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
	Total Cash in Drawer		

V-S-155

Daily Forms: Friday

13.

Sales Slip

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

14

Sales Slip

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

Credit Account Form

Quantity	Items	Price
	Subtotal	
	Tax	
Total Amount of Return		

Reason for Return____________________

Date______________________________

Customer Signature____________________

Cash Refund________ Credit Acc't.________

Cashier's Daily Report

Cashier______________________________

Date______________________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

Cash Count

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

WEEKLY FORMS

Customer Accounts:

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____

Address______________________________________

Account No.________________

Date	Item	Price	Tax	Payment	Credit	Balance

Weekly Forms, con't.

Accounts Receivable:

For the Month of ____________________

Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Customer Billing Form:

Customer Name ____________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name ____________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Customer Billing Forms, con't.

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Accounts Payable:

For the Month of ____________________

Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Checks and Check Stubs:

No.________ $__________
Date______________
To______________
For______________
Bal.Bro.For'd.________
Deposit__________
Total____________
Amt.This Ck.________
Balance__________

No.______
Date______________
Pay to the Order of____________________________

____

First National Bank
09-341-6785-01 ____________________

No.________ $__________
Date______________
To______________
For______________
Bal.Bro.For'd.________
Deposit__________
Total____________
Amt.This Ck.________
Balance__________

No.______
Date______________
Pay to the Order of____________________________

____

First National Bank
09-341-6785-01 ____________________

Checks and Check Stubs, con't.

No.________ $__________
Date__________________
To____________________
For___________________
Bal.Bro.For'd.________
Deposit_______________
Total_________________
Amt.This Ck.__________
Balance_______________

No.______

Date_________________

Pay to the Order of__________________________________

____

First National Bank
09-341-6785-01 ______________________________

PART C: PERSONNEL RECORDS

1. Tell the class that personnel records are required for keeping track of money paid to employees and money deducted from employee paychecks for taxes and social security.

2. Point out that the employer has a number of responsibilities to the employees he or she hires, whether they are full-time or part-time. Write on the board and discuss the legal requirements that an employer must fulfill with respect to employee deductions.

    a. The employer must make specific tax deductions from the employee's pay. These are for:

    - Social Security: for the current schedules for deductions contact the local Social Security Administration Office.
    - Federal Withholding Tax: for the current schedule for deductions, contact the Internal Revenue Service.
    - State Withholding Tax: for the current schedule for deductions, contact the state income tax division.

    b. Explain that each employee will cost the business more than his or her total salary. The law requires that the employer pay certain costs to provide protection for all regular employees. Write on the board and discuss the items that the employer must pay for each of the company's employees:

    - Social Security: the employer must match the employee's contribution dollar for dollar.
    - Unemployment Insurance: the rate varies by state. For the exact amount, contact the state employment security agency.
    - Workmen's Compensation: this is an employer's insurance policy that is designed to cover any employee injuries sustained in the course of work, regardless of fault. The insurance is now required by all states. For information contact the state Industrial Accident Board.

NOTE TO INSTRUCTOR: The Internal Revenue Service produces a complete small business tax kit. These materials may be helpful in presenting this section to the students. While this volume uses the latest tax tables available for reference in the various exercises, you may wish to obtain current schedules from the I.R.S.

3. Distribute the Personnel Records Package to the class. This should contain:

   - Employee earnings record
   - Payroll register
   - Employee Withholding Allowance Certificate, or W-4 form
   - Federal income tax withholding schedule for a weekly payroll period
   - Federal Social Security employee tax table

4. Explain that the employee earnings record is an individual documentation of each employee's gross earnings and payroll deductions. This will provide the basis for the annual W-2 tax form, which the employer must give to each worker as soon as possible after December 31 of each year: the worker must have the W-2 form in order to prepare his or her personal income tax.

5. The payroll register is a compilation of all employee payroll records for a given pay period. The payroll register will provide the businessperson or accountant with the amount of money paid to employees, the amounts deducted for taxes and the amounts deducted for social security. A new payroll register is made out each time the employees are paid.

6. The W-4 form must be completed by each employee at the time he or she begins work. The W-4 form tells the employer how many deductions the worker is claiming, which will affect the amount of money that is withheld for federal and state income tax purposes.

7. The federal income tax withholding schedule is used in conjunction with the employee's W-4 form to compute the correct amount of tax money to withhold from each paycheck.

   Similarly, the Social Security employee tax table is needed to calculate the correct amount of the employee's--and the employer's--Social Security contribution for each paycheck.

8. Explain to the class that both the Social Security and the Income Tax forms are federal requirements. Point out that for income tax, the amount of taxes or money withheld from an employee's gross earnings will be determined by a) the amount the employee earns and b) by the number of deductions that each employee claims. Explain that deductions are allowances made for each person that the employee is responsible for supporting, (such as children, a non-working husband or wife, and elderly relatives who depend on the wage earner for most of their support). The greater the salary or wage and the fewer the number of deductions, the higher the percentage of gross earnings that must be withheld.

9. Point out that Social Security taxes are also based on the amount that the employee earns, up to a certain amount. The Social Security tax is comprised of two parts: (1) the employee's contribution which is a flat percentage of the total salary up to a specified amount and (2) the employer's contribution which matches the employee contribution. The ceiling for employee deductions or the amount of salary up to which an employee is taxed changes by federal law over the years. Point out that unemployment insurance and workman's compensation are state requirements; most states also have an income tax, although the amount and the nature of the tax varies by state.

   - Unemployment insurance varies to some extent by state. It is paid for by the employer. The amount each employer must pay varies, depending on the number of employees in the company and the company's history of layoffs; the more layoffs the company makes, the higher the rate of unemployment insurance.

   - Workman's compensation is usually arranged through an insurance company, following state guidelines. The amount that the employer must pay is based on the nature of the business (high risk versus low risk), the number of employees in the business, and the company's history of on-the-job accidents.

   - State income tax differs considerably from state to state. For example, some states have an income tax system structured like the federal system in that the larger the salary, the greater the percentage of gross earnings withheld in taxes. Other states use a straight percentage of the total income as a tax base, regardless of the size of the income. A few states have no income tax.

10. Ask students to work through the forms required for each employee using the personnel records fact sheet and for the business beginning with the W-4 form, the earnings record, and the payroll register. The federal income tax and social security tables should be used as a basis for determining the amount withheld from each employee. Assume, for the purposes of this exercise, that there is no state income tax in your state.

    When the class has completed two forms for the first two employees, ask the students to complete the assignment at home.

PERSONNEL RECORDS FACT SHEET

Name	No. Dependents	Marital Status	Soc. Sec. Number	Hourly Wages	Hours Worked	
					Week 1	Week 2
(1) Abrams, Stanley	2	M	259-60-3920	$3.50	40	39
(2) Bernier, Paul	1	S	267-58-6769	$3.75	43	40
(3) Canval, Donald	4	M	361-29-1335	$5.25	39	40
(4) Ethier, Maretta	1	S	267-81-3042	$5.50	40	40
(5) Harney, Charles	3	M	628-43-0419	$4.50	40	43
(6) Kelley, Patricia	2	M	787-22-0990	$4.25	40	25

*40 hours constitutes a normal work week.
Additional work to be compensated at hourly wage rate.

V-S-167

Form **W-4**
(Rev. December 1978)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

(Use for Wages Paid After December 31, 1978)

This certificate is for income tax withholding purposes only. It will remain in effect until you change it. If you claim exemption from withholding, you will have to file a new certificate on or before April 30 of next year.

Type or print your full name

Your social security number

Home address (number and street or rural route)

City or town, State, and ZIP code

Marital Status

☐ Single ☐ Married

☐ Married, but withhold at higher Single rate

Note: *If married, but legally separated, or spouse is a nonresident alien, check the single block.*

1 Total number of allowances you are claiming . . . .

2 Additional amount, if any, you want deducted from each pay (if your employer agrees) . . . . $

3 I claim exemption from withholding (see instructions). Enter "Exempt" . . . .

Under the penalties of perjury, I certify that the number of withholding allowances claimed on this certificate does not exceed the number to which I am entitled. If claiming exemption from withholding, I certify that I incurred no liability for Federal income tax for last year and I anticipate that I will incur no liability for Federal income tax for this year.

Signature ►.. Date ►.. 19........

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Signature ►.. Date ►.. 19........

Employee No. ______ **EARNINGS RECORD**

Name ______ Address ______ Earning Rate ______

Social Security Number ______ Occupation ______ No. of Allowances ______ Marital Status ______

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ______ **EARNINGS RECORD**

Name ______ Address ______ Earning Rate ______

Social Security Number ______ Occupation ______ No. of Allowances ______ Marital Status ______

V-S-169

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ______ **EARNINGS RECORD**

Name ______ Address ______ Earning Rate ______

Social Security Number ______ Occupation ______ No. of Allowances ______ Marital Status ______

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

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Marital Status
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Signature ►.. Date ►.. 19........

Employee No. ________ EARNINGS RECORD

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings						Deductions						Net Pay		Cumulative Earnings	
		Reg.	Over.	Reg.		Over.		Total		FICA		Inc. Tax		Total					
1																			
2																			

V-S-172

Employee No. ________ EARNINGS RECORD

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings						Deductions						Net Pay		Cumulative Earnings	
		Reg.	Over.	Reg.		Over.		Total		FICA		Inc. Tax		Total					
1																			
2																			

Employee No. ________ EARNINGS RECORD

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings						Deductions						Net Pay		Cumulative Earnings	
		Reg.	Over.	Reg.		Over.		Total		FICA		Inc. [illegible]		Total					
1																			
2																			

V-S-173

Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

V-S-174

WEEK ENDING JANUARY 29, 19 – **PAYROLL REGISTER**

NO. ____ DATE PAID ____ 19 ____

EMP. NO.	EMPLOYEE	MARITAL STATUS	NO. OF ALLOW.	TOTAL HOURS		RATE PER HOUR		EARNINGS			DEDUCTIONS			NET PAY
				REGULAR	OVERTIME	REGULAR	OVERTIME	REGULAR	OVERTIME	TOTAL	FICA TAX	INCOME TAX	TOTAL	
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
21														
22														
	TOTALS													

Name ____

FEDERAL INCOME TAX WITHHOLDING SCHEDULE

WEEKLY Payroll Period— SINGLE Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$20	$25	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
25	26	.10	0	0	0	0	0	0	0	0	0	0
26	27	.30	0	0	0	0	0	0	0	0	0	0
27	28	.40	0	0	0	0	0	0	0	0	0	0
28	29	.60	0	0	0	0	0	0	0	0	0	0
29	30	.70	0	0	0	0	0	0	0	0	0	0
30	31	.90	0	0	0	0	0	0	0	0	0	0
31	32	1.00	0	0	0	0	0	0	0	0	0	0
32	33	1.20	0	0	0	0	0	0	0	0	0	0
33	34	1.40	0	0	0	0	0	0	0	0	0	0
34	35	1.50	0	0	0	0	0	0	0	0	0	0
35	36	1.70	0	0	0	0	0	0	0	0	0	0
36	37	1.80	0	0	0	0	0	0	0	0	0	0
37	38	2.00	0	0	0	0	0	0	0	0	0	0
38	39	2.20	0	0	0	0	0	0	0	0	0	0
39	40	2.30	0	0	0	0	0	0	0	0	0	0
40	41	2.50	.20	0	0	0	0	0	0	0	0	0
41	42	2.60	.30	0	0	0	0	0	0	0	0	0
42	43	2.80	.50	0	0	0	0	0	0	0	0	0
43	44	3.00	.70	0	0	0	0	0	0	0	0	0
44	45	3.10	.80	0	0	0	0	0	0	0	0	0
45	46	3.30	1.00	0	0	0	0	0	0	0	0	0
46	47	3.40	1.10	0	0	0	0	0	0	0	0	0
47	48	3.60	1.30	0	0	0	0	0	0	0	0	0
48	49	3.80	1.50	0	0	0	0	0	0	0	0	0
49	50	3.90	1.60	0	0	0	0	0	0	0	0	0
50	51	4.10	1.80	0	0	0	0	0	0	0	0	0
51	52	4.20	1.90	0	0	0	0	0	0	0	0	0
52	53	4.40	2.10	0	0	0	0	0	0	0	0	0
53	54	4.60	2.20	0	0	0	0	0	0	0	0	0
54	55	4.70	2.40	.10	0	0	0	0	0	0	0	0
55	56	4.90	2.60	.30	0	0	0	0	0	0	0	0
56	57	5.00	2.70	.40	0	0	0	0	0	0	0	0
57	58	5.20	2.90	.60	0	0	0	0	0	0	0	0
58	59	5.40	3.10	.70	0	0	0	0	0	0	0	0
59	60	5.50	3.20	.80	0	0	0	0	0	0	0	0
60	62	5.80	3.50	1.10	0	0	0	0	0	0	0	0
62	64	6.10	3.80	1.50	0	0	0	0	0	0	0	0
64	66	6.40	4.10	1.80	0	0	0	0	0	0	0	0
66	68	6.70	4.40	2.10	0	0	0	0	0	0	0	0
68	70	7.10	4.70	2.40	.10	0	0	0	0	0	0	0
70	72	7.50	5.10	2.70	.40	0	0	0	0	0	0	0
72	74	7.90	5.40	3.10	.80	0	0	0	0	0	0	0
74	76	8.30	5.70	3.40	1.10	0	0	0	0	0	0	0
76	78	8.70	6.00	3.70	1.40	0	0	0	0	0	0	0
78	80	9.10	6.30	4.00	1.70	0	0	0	0	0	0	0
80	82	9.50	6.70	4.30	2.00	0	0	0	0	0	0	0
82	84	9.90	7.00	4.70	2.40	0	0	0	0	0	0	0
84	86	10.30	7.40	5.00	2.70	.40	0	0	0	0	0	0
86	88	10.70	7.80	5.30	3.00	.70	0	0	0	0	0	0
88	90	11.10	8.20	5.60	3.30	1.00	0	0	0	0	0	0
90	92	11.50	8.60	5.90	3.60	1.30	0	0	0	0	0	0
92	94	11.90	9.00	6.30	4.00	1.60	0	0	0	0	0	0
94	96	12.30	9.40	6.60	4.30	2.00	0	0	0	0	0	0
96	98	12.70	9.80	6.90	4.60	2.30	0	0	0	0	0	0
98	100	13.10	10.20	7.30	4.90	2.60	.30	0	0	0	0	0
100	105	13.80	10.90	8.00	5.50	3.20	.90	0	0	0	0	0
105	110	14.80	11.90	9.00	6.30	4.00	1.70	0	0	0	0	0
110	115	15.80	12.90	10.00	7.20	4.80	2.50	.30	0	0	0	0
115	120	16.90	13.90	11.00	8.20	5.80	3.30	1.00	0	0	0	0

V-S-175

WEEKLY Payroll Period— SINGLE Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$120	$125	$18.00	$14.90	$12.00	$9.20	$6.40	$4.10	$1.80	$0	$0	$0	$0
125	130	19.20	15.90	13.00	10.20	7.30	4.90	2.60	.20	0	0	0
130	135	20.30	17.00	14.00	11.20	8.30	5.70	3.40	1.00	0	0	0
135	140	21.50	18.20	15.00	12.20	9.30	6.50	4.20	1.80	0	0	0
140	145	22.60	19.30	16.00	13.20	10.30	7.40	5.00	2.60	.30	0	0
145	150	23.80	20.50	17.10	14.20	11.30	8.40	5.80	3.40	1.10	0	0
150	160	25.50	22.20	18.90	15.70	12.80	9.90	7.00	4.60	2.30	0	0
160	170	27.80	24.50	21.20	17.80	14.80	11.90	9.00	6.20	3.90	1.60	0
170	180	30.10	26.80	23.50	20.10	16.80	13.90	11.00	8.10	5.50	3.20	.90
180	190	32.40	29.10	25.80	22.40	19.10	15.90	13.00	10.10	7.20	4.80	2.50
190	200	34.50	31.40	28.10	24.70	21.40	18.10	15.00	12.10	9.20	6.40	4.10
200	210	36.60	33.50	30.40	27.00	23.70	20.40	17.10	14.10	11.20	8.30	5.70
210	220	38.70	35.60	32.60	29.30	26.00	22.70	19.40	16.10	13.20	10.30	7.50
220	230	40.80	37.70	34.70	31.60	28.30	25.00	21.70	18.40	15.20	12.30	9.50
230	240	42.90	39.80	36.80	33.80	30.60	27.30	24.00	20.70	17.40	14.30	11.50
240	250	45.20	41.90	38.90	35.90	32.80	29.60	26.30	23.00	19.70	16.30	13.50
250	260	47.80	44.00	41.00	38.00	34.90	31.90	28.60	25.30	22.00	18.60	15.50
260	270	50.40	46.60	43.10	40.10	37.00	34.00	30.90	27.60	24.30	20.90	17.80
270	280	53.00	49.20	45.50	42.20	39.10	36.10	33.10	29.90	26.60	23.20	19.80
280	290	55.80	51.80	48.10	44.30	41.20	38.20	35.20	32.10	28.90	25.50	22.20
290	300	58.80	54.50	50.70	46.90	43.30	40.30	37.30	34.20	31.20	27.80	24.50
300	310	61.80	57.50	53.30	49.50	45.80	42.40	39.40	36.30	33.30	30.10	26.80
310	320	64.80	60.50	56.20	52.10	48.40	44.60	41.50	38.40	35.40	32.40	29.10
320	330	67.80	63.50	59.20	54.80	51.00	47.20	43.60	40.50	37.50	34.50	31.40
330	340	70.80	66.50	62.20	57.80	53.60	49.80	46.10	42.60	39.60	36.60	33.60
340	350	73.80	69.50	65.20	60.80	56.50	52.40	48.70	44.90	41.70	38.70	35.70
350	360	77.40	72.50	68.20	63.80	59.50	55.20	51.30	47.50	43.80	40.80	37.80
360	370	81.00	75.80	71.20	66.80	62.50	58.20	53.90	50.10	46.40	42.90	39.90
370	380	84.60	79.40	74.20	69.80	65.50	61.20	56.90	52.70	49.00	45.20	42.00
380	390	88.20	83.00	77.80	72.80	68.50	64.20	59.90	55.50	51.60	47.80	44.10
390	400	91.80	86.60	81.40	76.20	71.50	67.20	62.90	58.50	54.20	50.40	46.70
400	410	95.40	90.20	85.00	79.80	74.60	70.20	65.90	61.50	57.20	53.00	49.30
410	420	99.00	93.80	88.60	83.40	78.20	73.20	68.90	64.50	60.20	55.90	51.90
420	430	102.60	97.40	92.20	87.00	81.80	76.60	71.80	67.50	63.20	58.90	54.60
430	440	106.20	101.00	95.80	90.60	85.40	80.20	75.00	70.50	66.20	61.90	57.60
440	450	109.80	104.60	99.40	94.20	89.00	83.80	78.60	73.50	69.20	64.90	60.60
450	460	113.40	108.20	103.00	97.80	92.60	87.40	82.20	77.00	72.20	67.90	63.60
460	470	117.00	111.80	106.60	101.40	96.20	91.00	85.80	80.60	75.40	70.90	66.60
470	480	120.60	115.40	110.20	105.00	99.80	94.60	89.40	84.20	79.00	73.90	69.60
480	490	124.20	119.00	113.80	108.60	103.40	98.20	93.00	87.80	82.60	77.40	72.60
490	500	127.80	122.60	117.40	112.20	107.00	101.80	96.60	91.40	86.20	81.00	75.80
500	510	131.40	126.20	121.00	115.80	110.60	105.40	100.20	95.00	89.80	84.60	79.40
510	520	135.00	129.80	124.60	119.40	114.20	109.00	103.80	98.60	93.40	88.20	83.00
520	530	138.60	133.40	128.20	123.00	117.80	112.60	107.40	102.20	97.00	91.80	86.60
530	540	142.20	137.00	131.80	126.60	121.40	116.20	111.00	105.80	100.60	95.40	90.20
540	550	145.80	140.60	135.40	130.20	125.00	119.80	114.60	109.40	104.20	99.00	93.80
550	560	149.40	144.20	139.00	133.80	128.60	123.40	118.20	113.00	107.80	102.60	97.40
560	570	153.00	147.80	142.60	137.40	132.20	127.00	121.80	116.60	111.40	106.20	101.00
570	580	156.60	151.40	146.20	141.00	135.80	130.60	125.40	120.20	115.00	109.80	104.60
580	590	160.20	155.00	149.80	144.60	139.40	134.20	129.00	123.80	118.60	113.40	108.20
590	600	163.80	158.60	153.40	148.20	143.00	137.80	132.60	127.40	122.20	117.00	111.80
600	610	167.40	162.20	157.00	151.80	146.60	141.40	136.20	131.00	125.80	120.60	115.40
610	620	171.00	165.80	160.60	155.40	150.20	145.00	139.80	134.60	129.40	124.20	119.00
620	630	174.60	169.40	164.20	159.00	153.80	148.60	143.40	138.20	133.00	127.80	122.60
630	640	178.20	173.00	167.80	162.60	157.40	152.20	147.00	141.80	136.60	131.40	126.20
		36 percent of the excess over $640 plus—										
$640 and over		180.00	174.80	169.60	164.40	159.20	154.00	148.80	143.60	138.40	133.20	128.00

V-S-176

WEEKLY Payroll Period—MARRIED Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$48	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
48	49	10	0	0	0	0	0	0	0	0	0	0
49	50	20	0	0	0	0	0	0	0	0	0	0
50	51	40	0	0	0	0	0	0	0	0	0	0
51	52	60	0	0	0	0	0	0	0	0	0	0
52	53	80	0	0	0	0	0	0	0	0	0	0
53	54	90	0	0	0	0	0	0	0	0	0	0
54	55	1 10	0	0	0	0	0	0	0	0	0	0
55	56	1 30	0	0	0	0	0	0	0	0	0	0
56	57	1 40	0	0	0	0	0	0	0	0	0	0
57	58	1 60	0	0	0	0	0	0	0	0	0	0
58	59	1 80	0	0	0	0	0	0	0	0	0	0
59	60	1 90	0	0	0	0	0	0	0	0	0	0
60	62	2 20	0	0	0	0	0	0	0	0	0	0
62	64	2 50	10	0	0	0	0	0	0	0	0	0
64	66	2 90	40	0	0	0	0	0	0	0	0	0
66	68	3 20	80	0	0	0	0	0	0	0	0	0
68	70	3 60	1 10	0	0	0	0	0	0	0	0	0
70	72	3 90	1 40	0	0	0	0	0	0	0	0	0
72	74	4 20	1 80	0	0	0	0	0	0	0	0	0
74	76	4 60	2 10	0	0	0	0	0	0	0	0	0
76	78	4 90	2 50	0	0	0	0	0	0	0	0	0
78	80	5 30	2 80	40	0	0	0	0	0	0	0	0
80	82	5 60	3 10	70	0	0	0	0	0	0	0	0
82	84	5 90	3 50	1 00	0	0	0	0	0	0	0	0
84	86	6 30	3 80	1 40	0	0	0	0	0	0	0	0
86	88	6 60	4 20	1 70	0	0	0	0	0	0	0	0
88	90	7 00	4 50	2 10	0	0	0	0	0	0	0	0
90	92	7 30	4 80	2 40	0	0	0	0	0	0	0	0
92	94	7 60	5 20	2 70	30	0	0	0	0	0	0	0
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
94	96	8 00	5 50	3 10	60	0	0	0	0	0	0	0
96	98	8 30	5 90	3 40	1 00	0	0	0	0	0	0	0
98	100	8 70	6 20	3 80	1 30	0	0	0	0	0	0	0
100	105	9 40	6 80	4 30	1 90	0	0	0	0	0	0	0
105	110	10 40	7 70	5 20	2 70	30	0	0	0	0	0	0
110	115	11 40	8 60	6 00	3 60	1 10	0	0	0	0	0	0
115	120	12 40	9 60	6 90	4 40	2 00	0	0	0	0	0	0
120	125	13 40	10 60	7 70	5 30	2 80	40	0	0	0	0	0
125	130	14 40	11 60	8 70	6 10	3 70	1 20	0	0	0	0	0
130	135	15 40	12 60	9 70	7 00	4 50	2 10	0	0	0	0	0
135	140	16 40	13 60	10 70	7 90	5 40	2 90	50	0	0	0	0
140	145	17 40	14 60	11 70	8 80	6 20	3 80	1 30	0	0	0	0
145	150	18 40	15 60	12 70	9 80	7 10	4 60	2 20	0	0	0	0
150	160	19 90	17 10	14 20	11 30	8 40	5 90	3 50	1 00	0	0	0
160	170	21 90	19 10	16 20	13 30	10 40	7 60	5 20	2 70	30	0	0
170	180	23 90	21 10	18 20	15 30	12 40	9 50	6 90	4 40	2 00	0	0
180	190	25 60	23 10	20 20	17 30	14 40	11 50	8 60	6 10	3 70	1 20	0
190	200	27 30	24 80	22 20	19 30	16 40	13 50	10 60	7 80	5 40	2 90	50
200	210	29 00	26 50	24 10	21 30	18 40	15 50	12 60	9 80	7 10	4 60	2 20
210	220	30 70	28 20	25 80	23 30	20 40	17 50	14 60	11 80	8 90	6 30	3 90
220	230	32 40	29 90	27 50	25 00	22 40	19 50	16 60	13 80	10 90	8 00	5 60
230	240	34 10	31 60	29 20	26 70	24 30	21 50	18 60	15 80	12 90	10 00	7 30
240	250	35 80	33 30	30 90	28 40	26 00	23 50	20 60	17 80	14 90	12 00	9 10
250	260	37 50	35 00	32 60	30 10	27 70	25 20	22 60	19 80	16 90	14 00	11 10
260	270	39 20	36 70	34 30	31 80	29 40	26 90	24 50	21 80	18 90	16 00	13 10
270	280	41 70	38 40	36 00	33 50	31 10	28 60	26 20	23 70	20 90	18 00	15 10
280	290	44 20	40 60	37 70	35 20	32 80	30 30	27 90	25 40	22 90	20 00	17 10
290	300	46 70	43 10	39 50	36 90	34 50	32 00	29 60	27 10	24 70	22 00	19 10
300	310	49 20	45 60	42 00	38 60	36 20	33 70	31 30	28 80	26 40	23 90	21 10
310	320	51 70	48 10	44 50	40 90	37 90	35 40	33 00	30 50	28 10	25 60	23 10

WEEKLY Payroll Period—MARRIED Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$320	$330	$54 20	$50 60	$47 00	$43 40	$39 80	$37 10	$34 70	$32 20	$29 [illegible]	$27 30	$24 90
330	340	56 70	53 10	49 50	45 90	42 30	38 [illegible]	36 40	33 90	31 50	29 00	26 60
340	350	59 20	55 60	52 00	48 40	44 80	41 20	38 10	35 60	33 20	30 70	28 30
350	360	62 00	58 10	54 50	50 90	47 30	43 70	40 10	37 30	34 90	32 40	30 00
360	370	64 80	60 80	57 00	53 40	49 80	46 20	42 60	39 00	36 60	34 10	31 70
370	380	67 60	63 60	59 50	55 90	52 30	48 70	45 10	41 50	38 30	35 80	33 40
380	390	70 40	66 40	62 30	58 40	54 80	51 20	47 60	44 00	40 40	37 50	35 10
390	400	73 20	69 20	65 10	61 10	57 30	53 70	50 10	46 50	42 90	39 30	36 80
400	410	76 00	72 00	67 90	63 90	59 80	56 20	52 60	49 00	45 40	41 80	38 50
410	420	78 80	74 80	70 70	66 70	62 60	58 70	55 10	51 50	47 90	44 30	40 70
420	430	81 60	77 60	73 50	69 50	65 40	61 40	57 60	54 00	50 40	46 80	43 20
430	440	84 50	80 40	76 30	72 30	68 20	64 20	60 20	56 50	52 90	49 30	45 70
440	450	87 70	83 20	79 10	75 10	71 00	67 00	63 00	59 00	55 40	51 80	48 20
450	460	90 90	86 30	81 90	77 90	73 80	69 80	65 80	61 70	57 90	54 30	50 70
460	470	94 10	89 50	84 90	80 70	76 60	72 60	68 60	64 50	60 50	56 80	53 20
470	480	97 30	92 70	88 10	83 50	79 40	75 40	71 40	67 30	63 30	59 30	55 70
480	490	100 50	95 90	91 30	86 60	82 20	78 20	74 20	70 10	66 10	62 10	58 20
490	500	103 70	99 10	94 50	89 80	85 20	81 00	77 00	72 90	68 90	64 90	60 80
500	510	107 10	102 30	97 70	93 00	88 40	83 80	79 80	75 70	71 70	67 70	63 60
510	520	110 70	105 50	100 90	96 20	91 60	87 00	82 60	78 50	74 50	70 50	66 40
520	530	114 30	109 10	104 10	99 40	94 80	90 20	85 60	81 30	77 30	73 30	69 20
530	540	117 90	112 70	107 50	102 60	98 00	93 40	88 80	84 20	80 10	76 10	72 00
540	550	121 50	116 30	111 10	105 90	101 20	96 60	92 00	87 40	82 90	78 90	74 80
550	560	125 10	119 90	114 70	109 50	104 40	99 80	95 20	90 60	86 00	81 70	77 60
560	570	128 70	123 50	118 30	113 10	107 90	103 00	98 40	93 80	89 20	84 60	80 40
570	580	132 30	127 10	121 90	116 70	111 50	106 30	101 60	97 00	92 40	87 80	83 20
580	590	135 90	130 70	125 50	120 30	115 10	109 90	104 80	100 20	95 60	91 00	86 30
590	600	139 50	134 30	129 10	123 90	118 70	113 50	108 30	103 40	98 80	94 20	89 50
600	610	143 10	137 90	132 70	127 50	122 30	117 10	111 90	106 70	102 00	97 40	92 70
610	620	146 70	141 50	136 30	131 10	125 90	120 70	115 50	110 30	105 20	100 60	95 90
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
620	630	150 30	145 10	139 90	134 70	129 50	124 30	119 10	113 90	108 80	103 80	99 10
630	640	153 90	148 70	143 50	138 30	133 10	127 90	122 70	117 50	112 40	107 20	102 30
640	650	157 50	152 30	147 10	141 90	136 70	131 50	126 30	121 10	116 00	110 80	105 60
650	660	161 10	155 90	150 70	145 50	140 30	135 10	129 90	124 70	119 60	114 40	109 20
660	670	164 70	159 50	154 30	149 10	143 90	138 70	133 50	128 30	123 20	118 00	112 80
670	680	168 30	163 10	157 90	152 70	147 50	142 30	137 10	131 90	126 80	121 60	116 40
680	690	171 90	166 70	161 50	156 30	151 10	145 90	140 70	135 50	130 40	125 20	120 00
690	700	175 50	170 30	165 10	159 90	154 70	149 50	144 30	139 10	134 00	128 80	123 60
700	710	179 10	173 90	168 70	163 50	158 30	153 10	147 90	142 70	137 60	132 40	127 20
710	720	182 70	177 50	172 30	167 10	161 90	156 70	151 50	146 30	141 20	136 00	130 80
720	730	186 30	181 10	175 90	170 70	165 50	160 30	155 10	149 90	144 80	139 60	134 40
730	740	189 90	184 70	179 50	174 30	169 10	163 90	158 70	153 50	148 40	143 20	138 00
740	750	193 50	188 30	183 10	177 90	172 70	167 50	162 30	157 10	152 00	146 80	141 60
750	760	197 10	191 90	186 70	181 50	176 30	171 10	165 90	160 70	155 60	150 40	145 20
760	770	200 70	195 50	190 30	185 10	179 90	174 70	169 50	164 30	159 20	154 00	148 80
770	780	204 30	199 10	193 90	188 70	183 50	178 30	173 10	167 90	162 80	157 60	152 40
780	790	207 90	202 70	197 50	192 30	187 10	181 90	176 70	171 50	166 40	161 20	156 00
790	800	211 50	206 30	201 10	195 90	190 70	185 50	180 30	175 10	170 00	164 80	159 60
800	810	215 10	209 90	204 70	199 50	194 30	189 10	183 90	178 70	173 60	168 40	163 20
810	820	218 70	213 50	208 30	203 10	197 90	192 70	187 50	182 30	177 20	172 00	166 80
820	830	222 30	217 10	211 90	206 70	201 50	196 30	191 10	185 90	180 80	175 60	170 40
830	840	225 90	220 70	215 50	210 30	205 10	199 90	194 70	189 50	184 40	179 20	174 00
840	850	229 50	224 30	219 10	213 90	208 70	203 50	198 30	193 10	188 00	182 80	177 60
850	860	233 10	227 90	222 70	217 50	212 30	207 10	201 90	196 70	191 60	186 40	181 20
860	870	236 70	231 50	226 30	221 10	215 90	210 70	205 50	200 30	195 20	190 00	184 80
		36 percent of the excess over $870 plus—										
$870 and over		238 50	233 30	228 10	222 90	217 70	212 50	207 30	202 10	197 00	191 80	186 60

Social Security Employee Tax Table

5.85 percent employee tax deductions

Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$133.25	$133.42	$7.80	$144.36	$144.53	$8.45	$155.48	$155.65	$9.10	$166.59	$166.76	$9.75
133.42	133.59	7.81	144.53	144.71	8.46	155.65	155.82	9.11	166.76	166.93	9.76
133.59	133.77	7.82	144.71	144.88	8.47	155.82	155.99	9.12	166.93	167.10	9.77
133.77	133.94	7.83	144.88	145.05	8.48	155.99	156.16	9.13	167.10	167.27	9.78
133.94	134.11	7.84	145.05	145.22	8.49	156.16	156.33	9.14	167.27	167.44	9.79
134.11	134.28	7.85	145.22	145.39	8.50	156.33	156.50	9.15	167.44	167.61	9.80
134.28	134.45	7.86	145.39	145.56	8.51	156.50	156.67	9.16	167.61	167.78	9.81
134.45	134.62	7.87	145.56	145.73	8.52	156.67	156.84	9.17	167.78	167.95	9.82
134.62	134.79	7.88	145.73	145.90	8.53	156.84	157.01	9.18	167.95	168.12	9.83
134.79	134.96	7.89	145.90	146.07	8.54	157.01	157.18	9.19	168.12	168.30	9.84
134.96	135.13	7.90	146.07	146.24	8.55	157.18	157.36	9.20	168.30	168.47	9.85
135.13	135.30	7.91	146.24	146.42	8.56	157.36	157.53	9.21	168.47	168.64	9.86
135.30	135.48	7.92	146.42	146.59	8.57	157.53	157.70	9.22	168.64	168.81	9.87
135.48	135.65	7.93	146.59	146.76	8.58	157.70	157.87	9.23	168.81	168.98	9.88
135.65	135.82	7.94	146.76	146.93	8.59	157.87	158.04	9.24	168.98	169.15	9.89
135.82	135.99	7.95	146.93	147.10	8.60	158.04	158.21	9.25	169.15	169.32	9.90
135.99	136.16	7.96	147.10	147.27	8.61	158.21	158.38	9.26	169.32	169.49	9.91
136.16	136.33	7.97	147.27	147.44	8.62	158.38	158.55	9.27	169.49	169.66	9.92
136.33	136.50	7.98	147.44	147.61	8.63	158.55	158.72	9.28	169.66	169.83	9.93
136.50	136.67	7.99	147.61	147.78	8.64	158.72	158.89	9.29	169.83	170.00	9.94
136.67	136.84	8.00	147.78	147.95	8.65	158.89	159.06	9.30	170.00	170.18	9.95
136.84	137.01	8.01	147.95	148.12	8.66	159.06	159.24	9.31	170.18	170.35	9.96
137.01	137.18	8.02	148.12	148.30	8.67	159.24	159.41	9.32	170.35	170.52	9.97
137.18	137.36	8.03	148.30	148.47	8.68	159.41	159.58	9.33	170.52	170.69	9.98
137.36	137.53	8.04	148.47	148.64	8.69	159.58	159.75	9.34	170.69	170.86	9.99
137.53	137.70	8.05	148.64	148.81	8.70	159.75	159.92	9.35	170.86	171.03	10.00
137.70	137.87	8.06	148.81	148.98	8.71	159.92	160.09	9.36	171.03	171.20	10.01
137.87	138.04	8.07	148.98	149.15	8.72	160.09	160.26	9.37	171.20	171.37	10.02
138.04	138.21	8.08	149.15	149.32	8.73	160.26	160.43	9.38	171.37	171.54	10.03
138.21	138.38	8.09	149.32	149.49	8.74	160.43	160.60	9.39	171.54	171.71	10.04
138.38	138.55	8.10	149.49	149.66	8.75	160.60	160.77	9.40	171.71	171.89	10.05
138.55	138.72	8.11	149.66	149.83	8.76	160.77	160.95	9.41	171.89	172.06	10.06
138.72	138.89	8.12	149.83	150.00	8.77	160.95	161.12	9.42	172.06	172.23	10.07
138.89	139.06	8.13	150.00	150.18	8.78	161.12	161.29	9.43	172.23	172.40	10.08
139.06	139.24	8.14	150.18	150.35	8.79	161.29	161.46	9.44	172.40	172.57	10.09
139.24	139.41	8.15	150.35	150.52	8.80	161.46	161.63	9.45	172.57	172.74	10.10
139.41	139.58	8.16	150.52	150.69	8.81	161.63	161.80	9.46	172.74	172.91	10.11
139.58	139.75	8.17	150.69	150.86	8.82	161.80	161.97	9.47	172.91	173.08	10.12
139.75	139.92	8.18	150.86	151.03	8.83	161.97	162.14	9.48	173.08	173.25	10.13
139.92	140.09	8.19	151.03	151.20	8.84	162.14	162.31	9.49	173.25	173.42	10.14
140.09	140.26	8.20	151.20	151.37	8.85	162.31	162.48	9.50	173.42	173.59	10.15
140.26	140.43	8.21	151.37	151.54	8.86	162.48	162.65	9.51	173.59	173.77	10.16
140.43	140.60	8.22	151.54	151.71	8.87	162.65	162.83	9.52	173.77	173.94	10.17
140.60	140.77	8.23	151.71	151.89	8.88	162.83	163.00	9.53	173.94	174.11	10.18
140.77	140.95	8.24	151.89	152.06	8.89	163.00	163.17	9.54	174.11	174.28	10.19
140.95	141.12	8.25	152.06	152.23	8.90	163.17	163.34	9.55	174.28	174.45	10.20
141.12	141.29	8.26	152.23	152.40	8.91	163.34	163.51	9.56	174.45	174.62	10.21
141.29	141.46	8.27	152.40	152.57	8.92	163.51	163.68	9.57	174.62	174.79	10.22
141.46	141.63	8.28	152.57	152.74	8.93	163.68	163.85	9.58	174.79	174.96	10.23
141.63	141.80	8.29	152.74	152.91	8.94	163.85	164.02	9.59	174.96	175.13	10.24
141.80	141.97	8.30	152.91	153.08	8.95	164.02	164.19	9.60	175.13	175.30	10.25
141.97	142.14	8.31	153.08	153.25	8.96	164.19	164.36	9.61	175.30	175.48	10.26
142.14	142.31	8.32	153.25	153.42	8.97	164.36	164.53	9.62	175.48	175.65	10.27
142.31	142.48	8.33	153.42	153.59	8.98	164.53	164.71	9.63	175.65	175.82	10.28
142.48	142.65	8.34	153.59	153.77	8.99	164.71	164.88	9.64	175.82	175.99	10.29
142.65	142.83	8.35	153.77	153.94	9.00	164.88	165.05	9.65	175.99	176.16	10.30
142.83	143.00	8.36	153.94	154.11	9.01	165.05	165.22	9.66	176.16	176.33	10.31
143.00	143.17	8.37	154.11	154.28	9.02	165.22	165.39	9.67	176.33	176.50	10.32
143.17	143.34	8.38	154.28	154.45	9.03	165.39	165.56	9.68	176.50	176.67	10.33
143.34	143.51	8.39	154.45	154.62	9.04	165.56	165.73	9.69	176.67	176.84	10.34
143.51	143.68	8.40	154.62	154.79	9.05	165.73	165.90	9.70	176.84	177.01	10.35
143.68	143.85	8.41	154.79	154.96	9.06	165.90	166.07	9.71	177.01	177.18	10.36
143.85	144.02	8.42	154.96	155.13	9.07	166.07	166.24	9.72	177.18	177.36	10.37
144.02	144.19	8.43	155.13	155.30	9.08	166.24	166.42	9.73	177.36	177.53	10.38
144.19	144.36	8.44	155.30	155.48	9.09	166.42	166.59	9.74	177.53	177.70	10.39

Social Security Employee Tax Table

5.85 percent employee tax deductions

Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$177.70	$177.87	$10.40	$188.81	$188.98	$11.05	$199.92	$200.09	$11.70	$211.03	$211.20	$12.35
177.87	178.04	10.41	188.98	189.15	11.06	200.09	200.26	11.71	211.20	211.37	12.36
178.04	178.21	10.42	189.15	189.32	11.07	200.26	200.43	11.72	211.37	211.54	12.37
178.21	178.38	10.43	189.32	189.49	11.08	200.43	200.60	11.73	211.54	211.71	12.38
178.38	178.55	10.44	189.49	189.66	11.09	200.60	200.77	11.74	211.71	211.89	12.39
178.55	178.72	10.45	189.66	189.83	11.10	200.77	200.95	11.75	211.89	212.06	12.40
178.72	178.89	10.46	189.83	190.00	11.11	200.95	201.12	11.76	212.06	212.23	12.41
178.89	179.06	10.47	190.00	190.18	11.12	201.12	201.29	11.77	212.23	212.40	12.42
179.06	179.24	10.48	190.18	190.35	11.13	201.29	201.46	11.78	212.40	212.57	12.43
179.24	179.41	10.49	190.35	190.52	11.14	201.46	201.63	11.79	212.57	212.74	12.44
179.41	179.58	10.50	190.52	190.69	11.15	201.63	201.80	11.80	212.74	212.91	12.45
179.58	179.75	10.51	190.69	190.86	11.16	201.80	201.97	11.81	212.91	213.08	12.46
179.75	179.92	10.52	190.86	191.03	11.17	201.97	202.14	11.82	213.08	213.25	12.47
179.92	180.09	10.53	191.03	191.20	11.18	202.14	202.31	11.83	213.25	213.42	12.48
180.09	180.26	10.54	191.20	191.37	11.19	202.31	202.48	11.84	213.42	213.59	12.49
180.26	180.43	10.55	191.37	191.54	11.20	202.48	202.65	11.85	213.59	213.77	12.50
180.43	180.60	10.56	191.54	191.71	11.21	202.65	202.83	11.86	213.77	213.94	12.51
180.60	180.77	10.57	191.71	191.89	11.22	202.83	203.00	11.87	213.94	214.11	12.52
180.77	180.95	10.58	191.89	192.06	11.23	203.00	203.17	11.88	214.11	214.28	12.53
180.95	181.12	10.59	192.06	192.23	11.24	203.17	203.34	11.89	214.28	214.45	12.54
181.12	181.29	10.60	192.23	192.40	11.25	203.34	203.51	11.90	214.45	214.62	12.55
181.29	181.46	10.61	192.40	192.57	11.26	203.51	203.68	11.91	214.62	214.79	12.56
181.46	181.63	10.62	192.57	192.74	11.27	203.68	203.85	11.92	214.79	214.96	12.57
181.63	181.80	10.63	192.74	192.91	11.28	203.85	204.02	11.93	214.96	215.13	12.58
181.80	181.97	10.64	192.91	193.08	11.29	204.02	204.19	11.94	215.13	215.30	12.59
181.97	182.14	10.65	193.08	193.25	11.30	204.19	204.36	11.95	215.30	215.48	12.60
182.14	182.31	10.66	193.25	193.42	11.31	204.36	204.53	11.96	215.48	215.65	12.61
182.31	182.48	10.67	193.42	193.59	11.32	204.53	204.71	11.97	215.65	215.82	12.62
182.48	182.65	10.68	193.59	193.77	11.33	204.71	204.88	11.98	215.82	215.99	12.63
182.65	182.83	10.69	193.77	193.94	11.34	204.88	205.05	11.99	215.99	216.16	12.64
182.83	183.00	10.70	193.94	194.11	11.35	205.05	205.22	12.00	216.16	216.33	12.65
183.00	183.17	10.71	194.11	194.28	11.36	205.22	205.39	12.01	216.33	216.50	12.66
183.17	183.34	10.72	194.28	194.45	11.37	205.39	205.56	12.02	216.50	216.67	12.67
183.34	183.51	10.73	194.45	194.62	11.38	205.56	205.73	12.03	216.67	216.84	12.68
183.51	183.68	10.74	194.62	194.79	11.39	205.73	205.90	12.04	216.84	217.01	12.69
183.68	183.85	10.75	194.79	194.96	11.40	205.90	206.07	12.05	217.01	217.18	12.70
183.85	184.02	10.76	194.96	195.13	11.41	206.07	206.24	12.06	217.18	217.36	12.71
184.02	184.19	10.77	195.13	195.30	11.42	206.24	206.42	12.07	217.36	217.53	12.72
184.19	184.36	10.78	195.30	195.48	11.43	206.42	206.59	12.08	217.53	217.70	12.73
184.36	184.53	10.79	195.48	195.65	11.44	206.59	206.76	12.09	217.70	217.87	12.74
184.53	184.71	10.80	195.65	195.82	11.45	206.76	206.93	12.10	217.87	218.04	12.75
184.71	184.88	10.81	195.82	195.99	11.46	206.93	207.10	12.11	218.04	218.21	12.76
184.88	185.05	10.82	195.99	196.16	11.47	207.10	207.27	12.12	218.21	218.38	12.77
185.05	185.22	10.83	196.16	196.33	11.48	207.27	207.44	12.13	218.38	218.55	12.78
185.22	185.39	10.84	196.33	196.50	11.49	207.44	207.61	12.14	218.55	218.72	12.79
185.39	185.56	10.85	196.50	196.67	11.50	207.61	207.78	12.15	218.72	218.89	12.80
185.56	185.73	10.86	196.67	196.84	11.51	207.78	207.95	12.16	218.89	219.06	12.81
185.73	185.90	10.87	196.84	197.01	11.52	207.95	208.12	12.17	219.06	219.24	12.82
185.90	186.07	10.88	197.01	197.18	11.53	208.12	208.30	12.18	219.24	219.41	12.83
186.07	186.24	10.89	197.18	197.36	11.54	208.30	208.47	12.19	219.41	219.58	12.84
186.24	186.42	10.90	197.36	197.53	11.55	208.47	208.64	12.20	219.58	219.75	12.85
186.42	186.59	10.91	197.53	197.70	11.56	208.64	208.81	12.21	219.75	219.92	12.86
186.59	186.76	10.92	197.70	197.87	11.57	208.81	208.98	12.22	219.92	220.09	12.87
186.76	186.93	10.93	197.87	198.04	11.58	208.98	209.15	12.23	220.09	220.26	12.88
186.93	187.10	10.94	198.04	198.21	11.59	209.15	209.32	12.24	220.26	220.43	12.89
187.10	187.27	10.95	198.21	198.38	11.60	209.32	209.49	12.25	220.43	220.60	12.90
187.27	187.44	10.96	198.38	198.55	11.61	209.49	209.66	12.26	220.60	220.77	12.91
187.44	187.61	10.97	198.55	198.72	11.62	209.66	209.83	12.27	220.77	220.95	12.92
187.61	187.78	10.98	198.72	198.89	11.63	209.83	210.00	12.28	220.95	221.12	12.93
187.78	187.95	10.99	198.89	199.06	11.64	210.00	210.18	12.29	221.12	221.29	12.94
187.95	188.12	11.00	199.06	199.24	11.65	210.18	210.35	12.30	221.29	221.46	12.95
188.12	188.30	11.01	199.24	199.41	11.66	210.35	210.52	12.31	221.46	221.63	12.96
188.30	188.47	11.02	199.41	199.58	11.67	210.52	210.69	12.32	221.63	221.80	12.97
188.47	188.64	11.03	199.58	199.75	11.68	210.69	210.86	12.33	221.80	221.97	12.98
188.64	188.81	11.04	199.75	199.92	11.69	210.86	211.03	12.34	221.97	222.14	12.99

UNIT VI: PROMOTION

SUMMARY: Promotion, an element of the marketing mix, involves all the communication between a businessperson and his or her present and prospective customers. Promotion is important to a business at all times but it assumes increased importance for the small business, since it provides a link between the business and the consumer population.

STUDENT LEARNING OBJECTIVES:

- Explain the importance of personal selling techniques to the small business.
- Identify components of a good advertisement.
- Develop a promotional blend that could be used in a promotional campaign.

TEACHING STRATEGIES:

Part A: Introduction to Promotion and Advertising: lecture, discussion, worksheet, information sheet.

Part B: Sales Promotion: lecture, discussion, information sheet

Part C: Personal Selling and Public Relations: lecture, discussion, role play

Part D: Creating a Promotional Campaign: small group exercise

MATERIALS PREPARATION:

Part A: Select several advertisements of varying quality and effectiveness.

Duplicate "Advertising Media," "Advertising," "Essentials of Good Newspaper Advertising."

Part B: Duplicate "Checklist for Interior Arrangement and Display in Retail Outlets."

Part C: No preparation

Part D: Duplicate "Guidelines for Group Exercise," "Price List for Planning a Promotional Campaign," "Marketing and Promotional Campaign Flowchart." Duplicate one of each: "Planning a Promotional Campaign, #1 Variety Store," "Planning a Promotional Campaign, #2 Drug Store," "Planning a Promotional Campaign, #3 Book Store," "Planning a Promotional Campaign, #4 Pizza Store, " "Planning a Promotional Campaign, #5 Small Appliance Repair Shop."

MINI-PROBLEMS:

Women and Other Minority Entrepreneurs:

5. "Yuriko Sumoto." A Japanese-American woman wonders how she can make business contacts and find people to give her business advice, since she is relatively isolated from traditional business circles.

Other Mini-Problems:

22. "The 'Pet Rock' Problem." Following the edifying examples set for us by the creators and promoters of "Pet Rocks," "Pure Vermont Bottled Air," and "The Nothing Book, " students are asked to develop a promotional campaign for an equally useless item: leaves.

25. "Billboard." Students decide if a billboard that advertises the low rates of a hotel, but in unreadably small print effectively doubles the price of the rooms, is an ethical promotional devise.

27. "Door-to-Door Selling." Students figure out how to repair the damage that has been done to a part-time cosmetics business selling door-to-door, caused by customers' suspicion of traveling salespeople.

31. "Advertising Copy." Students devise advertisements for the same product in different media.

45. "Meg Wallack." A saleswoman in a clothing store achieves and excellent sales record by using a high-pressure personal selling technique; students decide if the technique is acceptable.

REFERENCES:

Fiske, Heidi, and Karen Zehring- "How to Start Your Own Business," Ms., April 1976, Section 6, "How to Sell Yourself: Graphics and Publicity."

Nelson, Robert E. and James A. Leach, Owning and Operating a Small Business, University of Illinois, Urbana-Champaign, 1976. Unit 10, "Advertising and Sales Promotion."

-----, Profitable Community Relations for Small Business, No. 27, Stock No. 045-000-00033-8, Small Business Administration. Superintendent of Documents, Government Printing Office, Washington, D.C. 20402

PART A: INTRODUCTION TO PROMOTION AND ADVERTISING

1. State and write the definition of promotion on the chalk board. Promotion, an element of the marketing mix, involves all the communication between a businessperson and his or her persent and prospective customers.

2. State and write the goals of promotion on the board. There are two main goals of promotion: (1) to create a good business image and (2) to stimulate sales of a product or service.

3. Explain that the goals of promotion can be achieved by the effective use of any one or a combination of the four techniques of promotion. Present the techniques, in the order they will be addressed in the unit, with definitions of each. As you do so, write them on the board.

   a. Personal selling - promotion through face-to-face individualized contact between seller and prospective buyer.

   b. Community relations - involvement of business persons in community life directly enhancing the image of the business and increasing goodwill, and indirectly affecting sales.

   c. Sales promotion - use of selling aids to attract potential customers and create an environment for higher sales.

   d. Advertising - paid use of media in a non-personal promotion with an identifiable sponsor to increase sales and/or improve business image (unpaid use of media is called publicity).

4. Ask students to give examples of each. Possible answers:

   - Personal selling - demonstrate uses of products, answer customer questions, explain special services.
   - Community relations - sponsor Little League team, United Way fundraising, telethons.
   - Sales promotion - free check-cashing, demonstrations, 2-for-1 sale, window displays, trading stamps.
   - Advertising - TV spot, flyer, ad in local newspaper.

5. Define promotional blend. The combination of promotional techniques used by a business is called the promotional blend.

6. Explain that advertising is an important type of promotion. Define advertising. Advertising is any form of paid, non-personal promotion that has an identifiable sponsor and that usually communicates with a large number of people at the same time (e.g., television commercials, radio commercials, newspaper and magazine advertisements, flyers or widely distributed advertising pamphlets).

7. To make sure students understand the definition, ask them if they think a listing in the Yellow Pages is a form of advertising. ANSWER: Yes, it is a paid, non-personal promotion that has an identifiable sponsor and communicates with large numbers of people at the same time.

   Ask students if they think the sales pitch of a car salesperson is a form of advertising. ANSWER: No, it is personal selling. Remind students that advertising is "non-personal" promotion.

   Ask students if they think the window display of a suited mannequin is a form of advertising. ANSWER: No, it does not communicate with large enough numbers of people. This window display is a form of sales promotion for a particular type of clothing and is designed to interest only a small number of passers-by.

8. Elicit additional examples of advertising. Flyers, direct mailings, bus placecards, advertising specialities (e.g., calendars, ashtrays, matches, and pens imprinted with an advertising message), billboards. Discuss how colors, sizes, novelty, humor, etc., are used in advertisements to motivate the consumer to sample or purchase a product.

9. Discuss how to set up an advertising program. Determine (1) the target market you want to reach and (2) how you can best reach it. For example, if your target market is middle-income homemakers, find out where they live, which newspapers they read, which radio stations they listen to. Then, if more than one paper or station covers much the same territory, find out circulation and audience figures and comparative cost of advertising per 1,000 readers or listeners before you place any ads.

10. Discuss how to choose media. The advertising medium (singular) or media (plural) which a businessperson chooses to transmit his or her message depends on (1) the type of message to be transmitted; (2) to whom the message is transmitted; (3) where these people are located; and (4) cost.

11. Distribute "Advertising Media" (one per student).

12. Discuss the media in terms of (1) small business cost constraints, (2) the type of message most adaptable to the media, (3) the size and makeup of the target market, (4) flexibility, and (5) effectiveness. Possible questions: (1) Which medium would be best suited to advertise an all-you-can-eat restaurant special to high school students? A white sale to homemakers? A rock concert? (2) Which medium is best for transmitting ideas (i.e., pollution control, political candidates, cancer checkups, auto safety)? Why? (3) Which medium is best to use for a small area? (4) Which medium is most restrictive in the number of works that can be used?

13. Explain and write on the board the qualities of a good advertisement.

- It is informative
- It is simple
- It is truthful
- It emphasizes important features
- It is imaginative
- It is attractive and pleasing

14. Describe what should be included in an advertisement.

- Introduction--purpose is to attract attention
- Body--gives details concerning the product or service and creates an interest or desire
- Closing--calls for action, motivates the customer to buy.

15. Display several advertisements to the class and have students pick out the good and bad ones. Ask students to explain their decisions and suggest how they might be improved. Try to use several exemplary ads first to serve as a basis for assessing what a good ad is. A good source is Advertising Age which selects the ten best advertisements every year. Have students identify the three parts of some of the advertisements presented (introduction, body, closing).

16. Assign student worksheet "Advertising," to be completed as homework out of class. Also distribute "Essentials of Good Newspaper Advertising." Explain to the students that this will help them evaluate the effectiveness of the advertisements.

17. When students complete their worksheets, have them count the number of white and black people in each of the ads they brought in. Arrive at totals for the class and compare. Remember that blacks represent about 12 percent of the population in America: do they appear in 12 percent of the ads?

18. Ask students how many of their advertisements have females and males depicted in non-stereotypical roles (e.g., women as executives or professionals, men taking care of children).

19. Considering the results of the last two points, ask students if they think advertisements should portray our society as it is now or as it is becoming.

INFORMATION SHEET

ADVERTISING MEDIA

PRINT MEDIA

NEWSPAPER ADVERTISING

- reaches a large number of people
- has a short life span
- is relatively inexpensive for the number of people reached
- is easily and quickly changed
- can be placed in a particular section of the paper to reach a selected audience
- is priced according to

  --circulation area (national, city, suburban, neighborhood)

  --frequency of publication (daily, Sunday, weekly)
- can reach a special interest group or a special ethnic group in a newspaper aimed at that audience
- is available in various sizes
- is available in several formats:

  --as display or classified advertising in regular editions

  --as inserts to regular editions

  --as special editions, such as shoppers' guides

MAGAZINE ADVERTISING

- reaches a selected audience ("target market vehicle")
- has a relatively long life span
- may be circulated among several readers
- must be planned and purchased in advance of publication date
- is available in various sizes

- is available in several formats:
  - --as display or classified advertising
  - --as card inserts in regular editions
- is more expensive than newspaper advertising

DIRECT MAIL

- reaches a selected audience
- is expensive for the number of people reached
- is likely to be kept and/or posted
- has special uses:
  - --soliciting mail-order or phone-order business
  - --announcing new products or changes in products, services
  - --notifying customers of price changes
  - --preceding or following up a salesperson's call
  - --welcoming new customers
  - --regaining lost customers
  - --thanking customers for their patronage
  - --reminding customers/prospects of seasonal or periodic needs
  - --announcing special events such as features sales
- offers a great variety of formats:
  - --catalogues
  - --circulars
  - --letters
  - --flyers
  - --brochures
  - --coupons
  - --inserts
  - --cards

DIRECTORIES

- reach people who have already decided to buy
- have a relatively long life span
- list products or services alphabetically
- list names of businesses alphabetically
- are available as:

  --general industrial directories

  --directories limited to a single industry, trade, or profession

  --directories for single or related groups of products

  --The Yellow Pages

  --catalog files
- offer little variety in format

TRANSIT ADVERTISING

- appears on buses, trains, subways, taxis, and in stations, depots, and airports
- can appear in single or multiple locations
- has the following formats:

  --car cards (interior and exterior)

  --posters

  --clocks

  --displays
- is expensive, compared to other print media

NON-PRINT MEDIA

RADIO ADVERTISING

- is usually local
- reaches a preselected audience
- is relatively expensive
- can be changed frequently
- must be repeated frequently
- is priced according to:
  --length of message
  --time of broadcast
  --frequency of broadcast
- is limited to brief copy
- is either read live by the announcers or is taped in advance by radio station personnel, the advertiser, or by an actor or singer

TELEVISION ADVERTISING

- reaches large marketing areas and specific large audiences
- may be done in cooperation with national advertisers
- is relatively expensive
- is priced according to:
  --length of message
  --time of broadcast
  --frequency of broadcast
  --time of year
  --whether station in independent or member of a network
- is limited to brief copy
- must be repeated frequently
- is usually a highly professional production

- can incorporate several art forms

ADVERTISING SPECIALTIES

- are likely to have relatively long term use and visibility
- have special uses:

  --as seasonal gifts

  --as reminder advertising

  --as tokens of appreciation for patronage
- are decorative and/or useful in format
- offer a great variety of formats:

  --matches

  --calendars

  --pens and pencils

  --T-shirts

  --balloons

  --buttons

  --bumper stickers

  --decals

  --clocks

OUTDOOR ADVERTISING

- has high exposure
- is especially good for products related to travel or outdoor living
- must conform to community and government regulations
- is available in the following formats:

  --posters

  --billboards

  --electronic signs

  --skywriting

  --banner towing

INFORMATION SHEET

ESSENTIALS OF GOOD NEWSPAPER ADVERTISING

Merchandise	Does the ad offer merchandise having wide appeal, special price features, and timeliness?
Medium	Is a newspaper the best medium for the ad, or would another--direct mail, radio, television or other--be more appropriate?
Location	Is the ad situated in the best spot (in both section and page location)?
Size	Is the ad large enough to do the job expected of it? Is it larger than necessary?
Headline	Does the headline express the major single idea about the merchandise advertised? The headline should usually be an informative statement and not simply a label. For example, "Sturdy shoes for active girls, specially priced at $6.95," is certainly better than "Girls' shoes $6.95.
Illustration	Does the illustration (if one is used) express the idea the headline conveys?
Merchandise Information	Does the copy give the basic facts about the goods, or does it leave out information that would be important to the reader? ("The more you tell, the more you sell.") Is it overcrowded with unnecessary information?
Layout	Does the arrangement of the parts of the ad and the use of white space make the ad easy to read? Does it stimulate the reader to look at all the contents of the ad?
Human Interest	Does the ad, through illustration, headline, and copy, appeal to customers' wants and wishes?
"You" attitude	Is the ad written and presented from the customer's point of view (with the customer's interests clearly in mind), or from the store's?
Credibility	Does the ad ring true, or does it perhaps sound exaggerated or somewhat phony?
Typeface	Does the ad use a distinctive type style--different from those of competitors? Is the type consistent within the ad? From ad to ad?

Spur to Action	Does the ad stimulate prompt action through devices such as use of a coupon, statement of limited quantities, announcement of a specific time period for the promotion or impending event?
Sponsor Identification	Does the ad use a specially prepared signature cut layout, or type, that is always associated with the store and that identifies it at a glance?
Details	Does the ad always include the following details: store location, hours open, telephone number, location of advertised goods, and whether phone and mail orders are accepted?

WORKSHEET

ADVERTISING

Select three magazine or newspaper ads for the same basic product (i.e., three clothing ads, three liquor ads, three car ads, etc.). Clip the ads, then write the answers to the following questions for each ad:

1. What is the total product being marketed (i.e., physical + psychological values)?

2. To what target market is the ad directed?

3. What is the specific purpose of the ad?

   -- To inform the consumer about the product
   -- To persuade the consumer that they need the product
   -- To remind the consumer of the product

4. Is the ad's message effective? Why or why not?

5. In what kind of magazine or newspaper might this ad appear?

6. If women are presented in the ads, what is their function in them (i.e., eye catcher, typical product user, humor, etc.)?

7. What are the prominent characteristics of the ad (i.e., bright colors, unusual shapes, size, etc.)?

After you answer all of these questions for each of your ads. compare the effectiveness of the ads on a separate sheet of paper.

PART B: SALES PROMOTION

1. Define and discuss sales promotion. Sales promotion is a form of advertising that includes all those activities that are designed to attract the customers' attention to a business or a product. It is a strategy which supplements and coordinates advertising and personal selling by providing selling aids and creating an environment to promote sales. A supportive promotional effort includes those activities which stimulate consumer purchasing and attract and hold the attention of potential customers.

2. Ask for examples of promotion techniques other than advertising. Examples: Window displays, interior displays, product demonstrations, free samples, premiums or coupons, contests or games, the use of a logo or symbol which will aid customers in relating products and services to a particular business.

3. Elicit from the students examples of promotional techniques. Examples might include:

- Services:

  -- Free check cashing
  -- Repair work at laundry
  -- Grocery Store carry-out
  -- Delivery of dry cleaning
  -- Motel service (kennel for pets, no extra charge for children under 12, free morning coffee)
  -- Guarantees, warranties
  -- Santa Claus
  -- Phone booth in a drug store

- Demonstrations:

  -- Vacuum cleaning demonstrations
  -- Test drives in cars, snowmobiles
  -- Sewing machine class
  -- Open house at dance studio

- Discounts:

  -- Coupons
  -- All-you-can-eat specials
  -- Rebates on small appliances (from manufacturer)
  -- On a new magazine subscription
  -- Special sales (2-for-1, etc.)
  -- Discounts on charges at parking lots (in urban areas)

- "Give-aways":
  - Free samples at bakery
  - Gifts with new savings account deposits
  - At birth of child, one week free diaper service
  - Welcome Wagon (gifts to new neighbors)
  - Free bus service for senior citizens
  - Free tickets to ball games for preferred customers
  - Free plants, glasses at service station
  - Free records, tickets, etc. (radio station, for merchants)
  - Birthday cakes in restaurants
- Displays:
  - In window
  - At point-of-purchase
  - At cash register
  - Seasonal banners
  - Signs
- Combinations of the above:
  - Free gift-wrapping (service and "give-away")
  - Free clinic at plant store (service and demonstration)
  - Community sidewalk sale with carnival rides, etc. (discount and display)

4. Emphasize the main goals of promotion: (1) to create a good business image, and (2) to stimulate sales of a product or service.

5. Define promotional blend. Promotional blend is the combination of promotional techniques used by a business. It is different for every business. Some of the factors influencing promotional campaigns for a particular business are: cost, potential consumers, season, past experience with specific types of promotion, product or service, competition, size of the business, etc. Most promotional campaigns use a variety of promotional techniques. For example, a newspaper advertisement announces that a demonstration of a new kitchen item will occur the next Saturday. This announcement may be followed by the demonstration itself, and possibly would include a coupon offering a 10 percent discount on the kitchen ware for a limited time.

6. Discuss the costs involved in promotional schemes. Glossy magazine advertisements and advertisements on major television stations are very expensive and are likely to be beyond the budgetary limitations of the small business. Advertisements in neighborhood newspapers, promotional schemes, window displays, etc., are of moderate cost and may be effective in reaching the target population of the small business. As a general rule of thumb, 6 percent of a business' gross profits can usually be spent on promotional activities. This of course can vary widely depending on the type of business and other factors such as the size of the business, the target population, the specific promotional techniques used, and so forth.

7. Distribute and discuss the Information Sheet, "Checklist for Interior Arrangement and Display."

8. One of the factors in deciding upon an arrangement of merchandise is the purchase motivation category to which it belongs:

- Convenience goods: those goods that a business's target customers buy regularly and without much thought. Convenience goods may be further classified as:
  - -- Impulse goods: something that a customer hadn't planned to purchase (e.g., chewing gum at a check-out counter)
  - -- Staples: items used regularly, such as food and health aids
  - -- Emergency goods: items unexpectedly needed such as bandaids, flashlights, or umbrellas
- Shopping goods: expensive items deserving comparison shopping, e.g., cars, jewelry, kitchen appliances, to obtain good quality price, service, and/or warranty,
- Unsought goods: items that are new on the market and relatively unfamiliar to consumers, e.g., video games, a new toothpaste,
- Specialty goods: a brand name item that particular consumers insist on, e.g., Morton's or Diamond salt, Converse sneakers.

These categories often overlap, however. A customer might spend considerable time shopping for a fine umbrella, or buy a brand name food item (salt) on an impulse, or in an emergency. These categories are intended to clarify how products will be marketed, and must be adapted to the changing marketplace.

9. Discuss the appropriate or best arrangement of goods in a store setting. Ask the students where to locate impulse goods. Impulse goods should be placed near the front of the store and interspersed with demand products so that as may people as possible will see them. Impulse goods should not be located directly across the aisle from demand items that most customers are looking for because the customer may not see the impulse items at all. Ask the students where to locate shopping goods. Shopping goods should be placed in sections with less traffic that are reached after passing impulse and convenience items (in retail stores which sell many varieties of goods).

10. Discuss the effect of sales promotion, particularly display, on small business sales. Point out the relatively low cost-benefit ratio: sales promotion can be inexpensive and effective if well-designed. For example, in a group of assorted independent stores, one out of four sales were made because of the way merchandise was displayed to potential customers, according to a survey sponsored by the National Retail Merchants Association.

INFORMATION SHEET

CHECKLIST FOR INTERIOR ARRANGEMENT AND DISPLAY IN RETAIL OUTLETS

Layout

1. Are your fixtures low enough and signs placed so that the customer can get a bird's-eye view of the store and tell in what direction to go for wanted goods?

2. Do your aisle and counter arrangements tend to stimulate a circular traffic flow through the store?

3. Do your display cases (fixtures and their arrangement), signs, lettering, and colors all create a coordinated and unified effect?

4. Before any supplier's displays are accepted, do you make sure they conform in color and design to what you already have?

5. Do you limit the use of hanging signs to special sale events?

6. Are your counters and aisle tables not overcrowded with merchandise?

7. Are your ledges and cashier/wrapping stations kept free of boxes, unneeded wrapping materials, personal effects, and odds and ends?

8. Do you keep trash bins out of sight?

Merchandise emphasis

1. Do your signs referring to specific goods tell the customer something significant about them, rather than simply naming the products and their places?

2. For your advertised goods, do you have prominent signs, including tear sheets at the entrances, to inform and guide customers to their exact location in the store?

3. Do you prominently display both advertised and nonadvertised specials at the ends of counters as well as at the point of sale?

4. Are both your national and private brands highlighted in your arrangement and window display?

5. Wherever feasible, do you give the more colorful merchandise in your stock preference in display?

6. In the case of apparel and home furnishings, do the items that reflect your store's fashion sense or fashion leadership get special attention at all times?

7. In locating merchandise in your store, do you always consider the productivity of space--vertical as well as horizontal?

8. Is your self-service merchandise arranged so as to attract the customer and assist her or him in selection by the means indicated below:

   a. Is each category grouped under a separate sign?

   b. Is the merchandise in each category arranged according to its most significant chararacteristic--whether color, style, size, or price?

   c. In apparel categories, is the merchandise arranged by price lines or zones to assist the customer in making a selection quickly?

   d. Is horizontal space usually devoted to different items and styles within a category (vertical space being used for different sizes--smallest at the top, largest at the bottom)?

   e. Are impulse items interspersed with demand items and not placed across the aisle from them, where many customers will not see them?

PART C: PERSONAL SELLING AND PUBLIC RELATIONS

1. Discuss personal selling as one of the most important promotional techniques available to the small businessperson.

   Personal selling, a promotional technique, is often the most important element of the promotional blend. It involves a face-to-face relationship between the prospective buyer and the seller. The salesperson has the responsibility of making a sale that satisfies both the customer and the business and of creating a good image for the business.

   The human element of personal selling gives this technique of promotion advantages over the other techniques (advertising and sales promotion). Salespeople can adapt their sales approach to the individuals' needs and can answer customers' questions or demonstrate the product. The main disadvantage of using personal selling is the difficulty and expense of training salespeople.

2. Write on the board and read aloud the definition of a good salesperson: A good salesperson must: (1) be responsive to the needs of the customer, (2) to familiar with the products, and (3) create the appropriate image for the business.

3. Ask the students if they can think of a store they dislike doing business with because of the behavior of the salespeople.

4. Outline on the board the five basic steps of selling. If a customer enters a business knowing exactly what he or she wants to buy and intending to buy it, there is little for the salesperson to do other than direct the customer to the product and complete the transaction. However, if a customer is undecided, the salesperson must follow the five basic steps of selling. First, greet the customer. Second, discover the customer's needs and wants. Third, present the product and help the customer examine it. Fourth, answer questions and handle objections. Fifth, close the sale. Each step must be performed with politeness, patience and truthfulness.

5. Divide the class into groups of three students for a personal selling role-play. Explain that the role-play is designed to improve each student's personal selling techniques. Describe the role-play:

   a. On a rotating basis, one group member will play the business owner (retail or service business). The remaining group members will be customers.

   b. The group members must decide the type of business situation to use in the game, but the business selected should allow the sales or service person to deal with more than one customer at a time.

   c. The "customers" will enter the place of business in any fashion desired and ask for the entrepreneur's assistance in selecting products, answering questions, verifying price, requesting service, etc. The businessperson must handle each customer and potential sale with all the patience, attention, and courtesy that he or she is able to muster.

   d. After a few minutes of role playing, the group members should drop their respective roles and discuss the performance of the entrepreneur, noting the positive and the negative aspects of the personal selling styles.

   e. The group will then reassign roles and repeat the pattern until every group member has had a chance to play the role of businessperson.

6. Define "public relations." Public relations involves the relationship of business with the political, educational, commercial and charitable life of the community. Civic-mindedness creates a desirable company image, promotes customer goodwill, and ultimately affects sales favorably by developing loyalty between the consumer population and the business.

7. Discuss the ways public relations can affect sales favorably. What is good for the community is good for business. It is good business in the short run because people like to deal with firms that are community-conscious and assume their rightful share of responsibility for the future of the whole community. It is good business in the long run because the company that is dynamically interested in a community and that is productive in its development will have far greater chance of building a strong community-based market than will a business venture that is clearly interested only in the customer's dollar. Public relations is an especially good way for businesses owned by women or minorities to build a positive image and a loyal clientele in the communities in which they operate.

8. Elicit examples of public relations activities which are appropriate for small business. Examples would include:

- making charitable contributions or buying tickets to charitable events
- participating in community fund-raising drives
- offering on-the-job training and summer employment for local students
- paying for community-oriented advertisements in local newspapers or fund-raising booklets
- sponsoring a youth athletic team
- participating in education programs
- sponsoring cultural activities such as "little theater" groups
- joining the Chamber of Commerce or other local business associations

9. Point out that public relations activities may require a significant investment of time or money, both of which are very scarce in the first years of a new business venture. The entrepreneur must weigh carefully how much time or money can actually be contributed without placing an undue burden on the business. The small businessperson can, however, make small contributions.

10. Stress that public relations is not merely a tool for increasing profits. Those who approach public relations without any immediate thought of direct sales promotion find the activities can be a rich source of goodwill, leading ultimately to an increase in local customers.

PART D: CREATING A PROMOTIONAL CAMPAIGN

1. Distribute and explain to the students the guidelines (see next page) for the small group promotional exercise to be conducted during this class period. Remind them that imagination and creativity are great assets to successful promotion schemes.

2. Hand out "Marketing and Promotional Campaign Flow Chart" and discuss the interrelationships of the components.

3. Divide the class into five groups, and distribute to each group copies of:

   - The "Price List" for the promotion

   - A case study for this exercise in planning a promotional campaign.

   Tell students that they are not limited to the promotional activities on the price list: They can use whatever free activities they can think of.

4. Observe the group activities and be available to answer questions that may arise.

5. When the exercise has been completed, review the promotional efforts of each group and be prepared to provide an assessment of the work and recommendations for improvement.

GUIDELINES FOR GROUP EXERCISE

PLANNING A PROMOTIONAL CAMPAIGN

a. Each group will be given the materials that they developed in Unit III (Marketing), consisting of the definition of a target market and an inventory of products and/or services that each business will sell.

b. Each group is to develop a promotional scheme to increase its particular business. The promotional scheme may cover only some selected products or everything in the store. Any promotional strategy or combination of strategies that will best reach the business' target market may be used. The students should bear in mind that there is no single way to accomplish the group's promotional goals and that successful promotion will depend upon the soundness of their planning (e.g., why they choose their promotional strategies) and the imaginative way in which they carry out each element of their plan.

c. Most strategies will cost something. Each group will be given a cost list for each type of promotional activity. Each group has $250 to spend on promotion, but anything that can be saved is to the advantage of the business that they run.

d. The groups should prepare at least an outline of each activity. If there is time, students can actually write and/or sketch advertisements, write scripts of radio or TV commercial spots, design brochures or flyers and plan special events, such as product demonstrations. The purpose of this exercise is not to produce finished ads, but simply to generate creative ideas for advertising.

e. One person in each group should be assigned the responsibility of documenting or writing down how the promotional campaign was planned and carried out. The results of the groups' exercises should be discussed in class, highlighting the strong points and noting the problems with each group's work.

f. The final products of this exercise should be the promotional campaign and the "advertisements" (or descriptions of promotional activities themselves). The exercise should be reviewed and evaluated on the basis of:

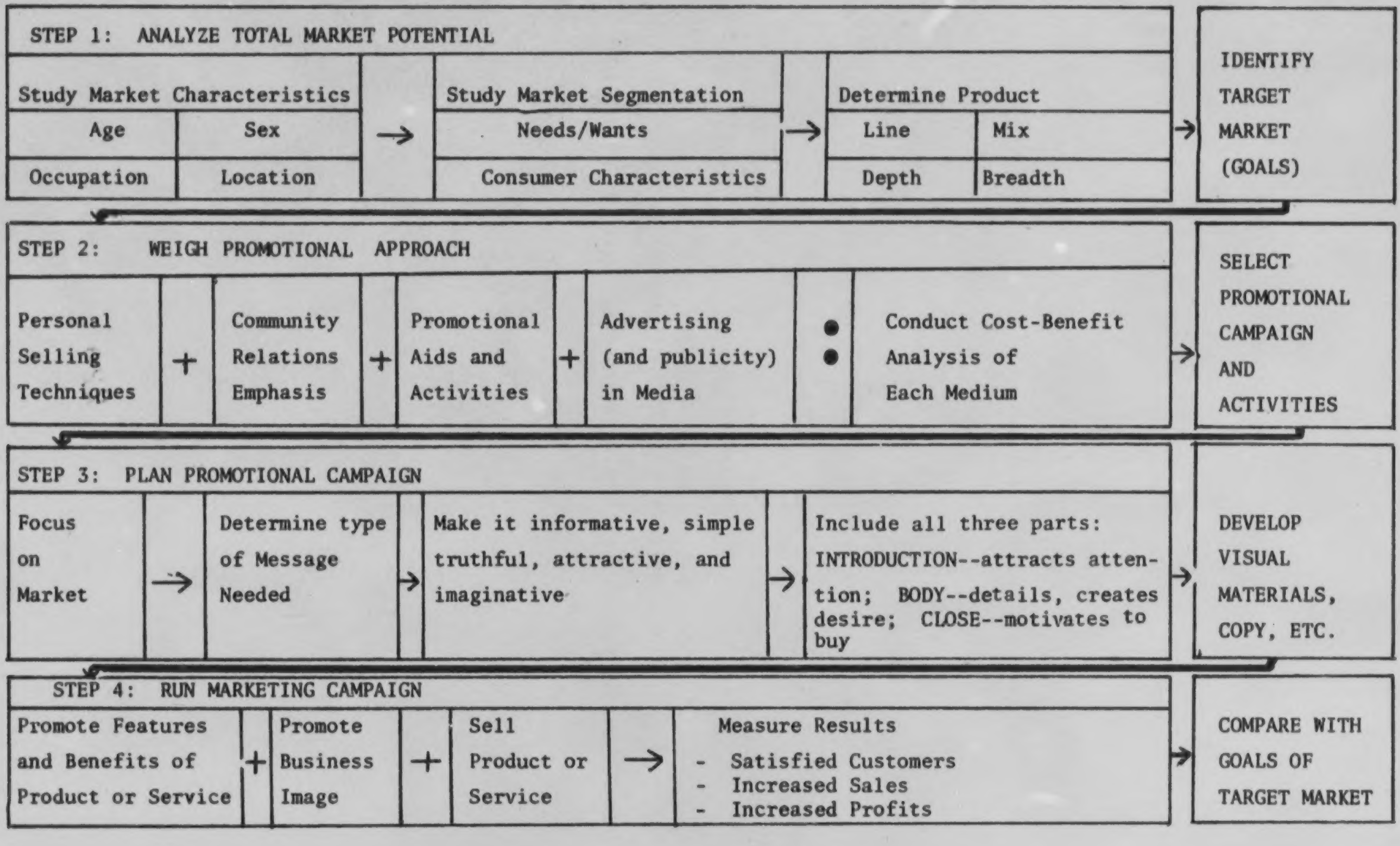
   1. How well each group's campaign is suited to the marketing goal, as stated by each case problem.

   2. The completeness of the planning.

   3. The quality of the materials that are produced by each group (are they imaginative, persuasive, do they show an understanding of the basic principles of promotion?).

INFORMATION SHEET

MARKETING AND PROMOTIONAL CAMPAIGN FLOWCHART



STEP 1: ANALYZE TOTAL MARKET POTENTIAL

Study Market Characteristics: Age, Sex, Occupation, Location → Study Market Segmentation: Needs/Wants, Consumer Characteristics → Determine Product: Line, Mix, Depth, Breadth → IDENTIFY TARGET MARKET (GOALS)

STEP 2: WEIGH PROMOTIONAL APPROACH

Personal Selling Techniques + Community Relations Emphasis + Promotional Aids and Activities + Advertising (and publicity) in Media : Conduct Cost-Benefit Analysis of Each Medium → SELECT PROMOTIONAL CAMPAIGN AND ACTIVITIES

STEP 3: PLAN PROMOTIONAL CAMPAIGN

Focus on Market → Determine type of Message Needed → Make it informative, simple truthful, attractive, and imaginative → Include all three parts: INTRODUCTION--attracts attention; BODY--details, creates desire; CLOSE--motivates to buy → DEVELOP VISUAL MATERIALS, COPY, ETC.

STEP 4: RUN MARKETING CAMPAIGN

Promote Features and Benefits of Product or Service + Promote Business Image + Sell Product or Service → Measure Results
- Satisfied Customers
- Increased Sales
- Increased Profits

→ COMPARE WITH GOALS OF TARGET MARKET

INFORMATION SHEET

PRICE LIST FOR PLANNING A PROMOTIONAL CAMPAIGN

Major network T.V. 30 second spot: $1,000

UHF local T.V. 30 second spot: $ 250

Newspaper advertising:
- (1 column, 2 inch ad): $ 5
- (2 column, 10 inch ad): $ 50
- (4 column, 10 inch ad): $125
- (4 column, 15 inch ad): $200

Radio 90 second spot: $ 100

Flyers, brochures (per 100): $10.00

Demonstration: free -- expenses paid by supplier of product

Support of local football team -- $250 donation

Yellow Pages advertisement:
- small ad: $ 250
- large ad: $ 400

Billboard:
- $500 (small board on roadside)
- $700 (small board in prime location)

Specialties (tokens of appreciation for partronage): $100 (per 100)

PLANNING A PROMOTIONAL CAMPAIGN

#1 Variety Store

You are in a slow selling season after the holidays and you still have a fairly large inventory left over from that season. Although you realize that this situation is the result of over-ordering specific items, you are not yet willing to admit defeat. You plan to hold a special promotion of these goods over the next five weeks. How are you going to design a sales promotion campaign to accomplish increased sales?

Using the price list provided, plan your promotion strategy, write or design your ads or activities, and/or plan special promotional activities that fall within your total advertising budget of $250. Document your plans carefully and provide an itemized budget. Provide an overall rationale for your strategy, detailing the target market that you are trying to reach, the methods you will employ, and any additional benefits that you see in using your plan.

#2 Drug Store

Your small drug store is doing fairly well, but you have noticed that your customer population is not growing. You suspect that a large part of your potential market is, in fact, shopping at the large chain drug store located two blocks away from your store. Because you recognize that your store really needs more customers to increase profits significantly, you are currently developing a strategy to accomplish this end. How are you going to design a sales promotion campaign to increase the number of customers who patronize your store on a regular basis?

Using the price list provided, plan your promotion strategy, write or design your ads or activities, and/or plan special promotion activities that fall within your total advertising budget of $250. Document your plans carefully and provide an itemized budget. Provide an overall rationale for your strategy, detailing the target market that you are trying to reach, the methods you will employ, and any additional benefits that you see in using your plan.

#3 Book Store

Your small bookstore, formerly your late uncle's business, has increased its business somewhat since your takeover. However, there are still some problems: (1) you have a very large inventory of your uncle's stock left over, which is selling slowly, and (2) you still need to attract new customers if the business is going to prosper. In three weeks a large new clothing store located in the shopping center is to have its grand opening and you feel that this might provide a good occasion to get people to come into your bookstore too. How can you go about advertising or promoting your store beforehand, to make sure that the grand opening customers do drop by your store? What special features can you offer them during the week of the grand opening?

Using the price list provided, plan your promotion strategy, write or design your ads or activities, and/or plan special promotion schemes that fall within your total advertising budget of $250. Provide an overall rationale for your strategy, detailing the target market that you are trying to reach, the methods you will employ, and any additional benefits that you see in using your plan.

#4 Pizza Store

Your small pizza store has attracted new business from the new office building that recently opened across the street. The volume of new business, however, is nowhere near the potential market you could have if most of these workers who buy lunch were to patronize your store. You decide that you are going to carry out a campaign to attract the attention of the office workers within the next few weeks, to see if you can't start tapping some of that potential business. How are you going to accomplish this?

Using the price list provided, plan your promotion strategy, write or design your ads or activities, and/or plan special promotion activities that fall within your total advertising budget of $250. Document your plans carefully and provide an itemized budget. Provide an overall rationale for your strategy, detailing the target market that you are trying to reach, the methods you will employ, and any additional benefits that you see in your plan.

#5 Small Appliance Repair Shop

You have succeeded in attracting some business from the surrounding neighborhood for small appliance repairs, (e.g., irons, toasters, radios, etc.) but you feel that you are not really getting the business that you could from the residents of a nearby small town. There is no appliance repair shop in Bella Vista, so competition can't be the explanation. You have just bought a used van so that you can make deliveries of repaired goods and take some of your tools out for repairs which need to be done on the spot in people's homes. You have hired a part-time employee to mind the store while you are out in the truck. If you are going to be able to afford to keep the truck and your employee, however, you are going to have to expand your business quite a bit. How are you going to design a promotion scheme to attract more customers?

Using the price list provided, plan your promotion strategy, write or design your ads or activities, and/or plan special promotion activities that fall within your total advertising budget of $250. Document your plans carefully and provide an itemized budget of each expenditure. Provide an overall rationale for your strategy, detailing the target market that you are trying to reach, the methods that you will employ, and any additional benefits that you see in using your plan.

UNIT VII: PRICING

SUMMARY: To be successful, the small businessperson must establish prices for goods and/or services that are appealing to customers, competitive with similar business firms, and which allow for sufficient profit.

STUDENT LEARNING OBJECTIVES:

- Discuss factors that affect pricing
- Discuss strategies in pricing goods and services and the consequences of those strategies.
- Compute a gross margin percentage correctly.

TEACHING STRATEGIES:

Part A: Pricing Factors: discussion, worksheet, information sheet

Part B: Pricing Policies: discussion, worksheet, board exercise

MATERIALS PREPARATION:

Part A: Duplicate "Pricing the Jam," "Spending Decisions," "Pricing Factors."

Part B: None

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

7. "Women and Mathematics." The problem describes Tasha Jones, who was an excellent math student as a child and had elaborate plans for a math-related career, but who was barely passing math in high school and no longer thought of math in career terms.

Other Mini-Problems:

1. "Maria Williams." She raised her prices on an essential item because she temporarily had no competition.

2. "Maria Williams and the Customer." Students are asked to play the role of Maria Williams and one of her customers in the situation described in the previous problem.

6. "Potting Mixture." A plant store owner must consider substituting vermiculite for some potting soil, to cut costs, though the plants won't grow as well in the cheaper mixture.

19. "Mathematics." Students consider their feelings about mathematics, an important ability for a businessperson to have.

33. "Credit Card." The owner of a farm supply company has begun credit card service, but despite raising selling prices to cover the cost of the service, the owner finds that profits have decreased.

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PART A: PRICING FACTORS

1. Introduce the unit by distributing the worksheet "Pricing the Jam." The worksheet may either be read aloud and the questions worked out in sequence, or it may be used as an individual student exercise assigned as homework.

   Answers to the questions:

   1. Cost of the jam = $.67 per jar or $67 for 100 jars ($.40 for ingredients and $.27 for each jar).
   2. $67 for jam (100 jars)--$12 for labor (two employees for two hours each @ $3.00 per hour)--$5 for delivery (taxi fare).
   3. $84 total expenses incurred in making and delivering jam.
   4. $.85 minimum price that may be charged.
   5. Leeway in pricing is between $.85 and $1.25 per jar.
   6. To break even, you must charge $1.05 per jar if you sell only 80 jars.
   7. Profit of 100 jars sold at $1.00 = $16.
   8. Profit of 100 jars sold at $1.15 = $31.

      (Gross profit and net profit will be discussed in Part B.)
   9. (Answers to be provided through class discussion).
   10. Attractiveness to your booth, of your packaging, courtesy of people selling the jam, bad weather, advertising. (Advertising would add to expenses unless the materials and labor are donated.)

   Save the worksheets for an exercise in Part B.

2. Lead students in formulating a definition for pricing. (Determining the dollar amount consumers will be charged for goods and services offered by a business.)

3. Distribute to each student a copy of "Spending Decisions." Discuss each problem in turn, eliciting from students the various factors that affect their decisions. Problem A, for instance, should elicit

these factors: personal service, location, convenience, price. The factors illustrated in B are price, services (gift wrap, assistance, return policy, delivery, repair), image, and credit. The factors illustrated in C are value (desirability), price. Problem D points out these factors: quick service, quality of work, insurance on your house and on the workers.

4. Discuss with students the fact that although customers look for the best price on a product or service, they also weigh other factors. Entrepreneurs have to consider these factors in pricing their goods or services.

5. Distribute to each student a copy of the Information Sheet, "Pricing Factors." The sheet is prepared in outline form so that students can take notes as each of the factors is discussed.

6. Discuss with students each of the pricing factors on the information sheet, eliciting from them as much information and as many examples as possible. Use the following information to elaborate on and to clarify terms:

   (1) Cost: The basic factor in determining the selling price of goods is the cost to the retailer of the merchandise. To determine the total cost of merchandise, add the transportation charges to the supplier's price. For example, if the supplier's price of a piece of merchandise is $10 and the transportation charge is $.75, the total cost of that article is $10.75. For a small business that offers a service rather than a product, this factor has much less significance. Repair shops, for instance, have to consider the cost of the parts they use, but their biggest expenses are salaries and equipment. An errand service, a real estate agent, or another small business that deals exclusively in services has no cost of merchandise to consider, so the following factors are more important in their pricing decisions.

   (2) Operating Expenses

   Rent or mortgage payments
   Taxes--on business location, if owned.
   Salaries--includes the employer's share of social security, unemployment insurance, and workmen's compensation. Also includes fringe benefits such as paid holidays and vacation, sick leave, pension plan, incentives or bonuses, and medical, life and/or disability insurance.
   Advertising
   Utilities--heat, electricity, water, telephone
   Services--delivery, credit, parking, gift wrap, alterations.

Maintenance--repairs, cleaning, repainting of store, shop, or office and of equipment.
Depreciation of equipment
Bad accounts and collection expenses--the owner either has to absorb the cost of a bad check or unpaid account, or pay a lawyer or collection agency to obtain payment.
Insurance--on the building, if owned; on the merchandise.
Returns--include cost of processing the return and refund or credit, as well as the depreciation of the merchandise returned.
Interest on money borrowed--the owner borrows money initially to start the business, and later to meet unexpected expenses or to expand the business.
Stationery and supplies--includes bags, other wrapping materials, price stickers or tickets, business forms, correspondence supplies.
Theft, spoilage, breakage--the owner has to take into account losses due to these factors.
Travel--such as buying trips for retailers. For service businesses, entrepreneurs consider the expenses of traveling to the job or on the job.
Donations--to community projects or charities.
Communications--includes telephone, telegram, cable expenses, and correspondence.
Discounts--to employees, senior citizens, students, preferred customers.
Professional services--such as lawyers, accountants, credit bureaus

(3) Competition: customers will not accept higher prices unless extra services are offered. Extra services could include free delivery or gift wrap, assistance from salespeople, or a liberal return policy. A small businessperson who can provide a product or service earlier or better than a competitor has an edge.

(4) Volume: A small business owner may be able to offer lower prices if he or she anticipates a greater sales volume. A caterer, for example, may be able to offer lower prices if he or she is assured of a catering job every day. A merchant may lower prices on a particular item if it seems that he or she can sell more items at the lower price. Sometimes, however, the expense of selling more items (storage, salespeople, returns) may outweight the projected profit.

(5) Value: Seasonal items, fad items, unusual and imported items bear higher prices because of their higher value, or desirability to customers.

(6) Supply and demand: Customers are willing to pay more for items or services that are limited in availability, and less for items or services that are easily available.

(7) Image: A business' basic pricing policy should reflect the image it is trying to create. For example, a steak house which wants to create an elegant and expensive image would not charge the same prices for its food that a steak house catering to families would. The elegant steak house should also, of course, serve higher quality meat.

(8) Profit goal: A small businessperson calculates how much money he or she needs to make to cover the expenses of doing business and to earn a reasonable salary. Some entrepreneurs calculate their salaries as part of the business expenses.

(9) Inflation and increased overhead: The cost of doing business rises periodically and predictably. Because customers resent and mistrust frequent price changes, the business owner must anticipate increased expenses and set prices that will cover those changes.

(10) "Passing through" or "absorbing" rising costs: Estimating the cost in the future to replace inventory must be a part of every pricing decision. When costs suddenly rise, the business person must consider the effects on volume of sales and customer loyalty of "passing through" higher costs to the consumer. It may be better policy in the long run to give up some or all the profits on an item or service by "absorbing" the higher costs while keeping prices stable.

(11) Future markdowns: A retailer who deals in merchandise that is seasonal, or short-lived in terms of desirability (such as high fashion clothing) needs to anticipate markdowns if that merchandise doesn't sell. Therefore, he or she sets prices high enough so that eventual markdowns will not cause a loss.

(12) Legal constraints: Federal, state, and local laws restrict pricing on some goods. The federal laws prevent deceptive pricing and pricing that limits competition within a given market. State laws, called fair-trade laws or unfair sales practice laws, specify prices below which a retailer may not sell a product. Local laws, when they exist, reinforce or strengthen state or federal laws. Additionally, in times of national emergency or national distress, i.e., inflation, the federal government may legislate wage and price freezes in an attempt to stabilize the economy.

(13) Estimates: In many service businesses an estimate of the final price for the work to be done can be offered to the customer. The businessperson may guarantee that the service will cost no more, or that the estimate is correct within a certain percentage. It must also be decided whether to charge for making the estimate, which in itself can be time-consuming. Whatever the policy, it must be adhered to rigidly, to preserve the business' reputation for honesty and integrity.

7. Ask students to ask their advisors how their pricing policies are affected by the eleven pricing factors. Since different types of businesses are affected differently by the factors, instruct students to have their advisors rank the pricing factors in order of importance for their particular businesses. Ask students to present the results in class. Discuss the variations that occur.

WORKSHEET

PRICING THE JAM

Let's assume that you are in charge of selling homemade jam at a neighborhood street dance to raise funds for a local day care center.

The cost of the ingredients for each 8 ounce jar of jam totals $.40 ($.31 for strawberries and $.09 for sugar per jar).

The cost of the canning jar in which the jam is packaged is $.27 per jar.

The jam was actually made by a small catering firm which paid two employees $3.00 per hour. Each employee worked two hours to produce the 100 jars of jam to be sold in your booth.

Because the jam will be sold by volunteers, no wages need to be paid to sales people at the booth. Expenses for delivering the jam to the booth, however, total $5.00 for the taxi cab that carried the boxed jars from the catering firm to the fair grounds.

Another booth at the street dance is also selling 8 ounce jars of strawberry jam for $1.25 each.

Questions

1. What is the cost for the jam ingredients and jars?
2. List all the expenses incurred in the production and delivery of the jam.
3. What is the total cost of all the jars of jam?
4. Assuming that you sell all 100 jars, what is the minimum that you can charge for each jar of jam and still make a profit?
5. Considering the competition's $1.25 price, what leeway do you have in setting a price for your jam?
6. Assuming that you sell only 80 jars of jam, what is the minimum price you can charge and still show a profit?
7. If you sell all 100 jars at $1.00, what will your profit be?
8. If you sell all 100 jars at $1.15, what will your profit be?
9. Do you think that the $.15 difference in price will affect the number of sales that you make? Is the greater profit from the higher price worth the risk that you won't sell as many? Which price would you choose and why?
10. What factors besides price might influence the number of jars of jam you sell?

WORKSHEET

SPENDING DECISIONS

A. Three service stations in your town are selling the same nationally-known brand of premium gasoline, but at different prices. One service station, located at a busy intersection, sells premium gasoline for 71.9¢ per gallon. Another, a self-service station, sells the same kind of gasoline for 67.9¢. The third station is located near the entrance to a toll road and sells premium gasoline for 73.9¢. Where will you buy your gasoline and why?

B. You want to purchase a particular brand name digital wrist watch as a gift for a special friend. You know that a local discount store sells the watch at a low price. You also know that the watch is available at a prestigious local gift shop, as well as at several department stores. Where will you buy the watch and why?

C. You take your lunch to work with you every day because you can save money by doing so. You can also be assured of a well balanced lunch if you plan it and pack it yourself. You read in the newspaper this week that an early frost in Florida would cause prices of Florida citrus fruit to rise. In planning your grocery shopping this week you've noticed from supermarket ads in the newspaper that oranges and grapefruit have, in fact, risen in price. How will this affect your brown bag lunches?

D. A large oak tree in your yard was damaged in a recent storm. You'd like to have the tree taken down and cut into firewood. One tree removal service has estimated the job at $150, but cannot do it for another week. Three neighborhood teenagers have offered to do it immediately if you will provide the equipment. They will charge $50. Who will take down the tree?

INFORMATION SHEET

PRICING FACTORS

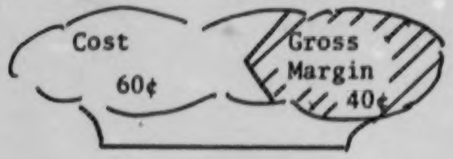
1. Cost
2. Operating Expenses
    - rent
    - salaries
    - advertising
    - utilities
    - services
    - maintenance
    - depreciation of equipment
    - bad accounts and collection expenses
    - insurance
    - returns
    - interest on money borrowed
    - stationery and supplies
    - theft, spoilage, breakage
    - travel
    - donations
    - communications
    - discounts
    - professional services
3. Competition
4. Volume
5. Value
6. Supply and demand
7. Image
8. Profit goal
9. Inflation and increased overhead
10. Future markdowns
11. Legal constraints

PART B: PRICING POLICIES

1. Explain to students that in spite of the many factors that affect pricing, and in spite of the frequency with which these factors change, customers expect prices to remain consistent. Because customers resent frequent price changes, businesspeople must anticipate the variables in the cost of doing business. A retailer will usually change the quality or quantity of a product before changing the price. For example, if a certain retailer usually carries men's shirts priced at $7.99, and the supplier increases the cost of that shirt, the retailer might decide to carry a shirt of lower quality and sell it at the same price ($7.99) to avoid raising the price. Similarly, a merchant who usually sells a one-pound bag of jellybeans for 79¢ might pass along his increased cost by charging 79¢ for a 12 oz. bag of jellybeans.

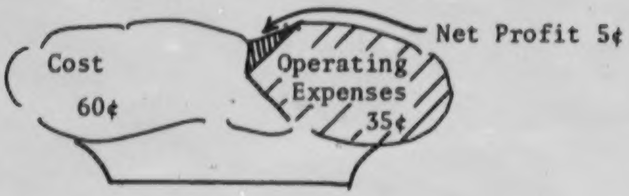
2. Explain to students that the most common pricing strategy used by entrepreneurs is called "gross margin pricing." The gross margin is the amount or markup an entrepreneur adds to the cost of the merchandise or service.

3. Draw this illustration of a pie on the board:



4. As an example of gross margin pricing, use the drawing of the pie that a grocery store owner purchases from a baker for 60¢. He sells the pie for $1.00. The difference, 40¢, is the gross margin. Another term for gross margin is gross profit. This is not, however, a clear profit to the owner: out of the gross profit margin come all of the operating expenses.

5. Revise the pie illustration to look like this:



6. Explain that the grocery store owner who sells a pie for $1.00 figures his clear profit, or net profit, by subtracting the cost plus the operating expenses from the selling price. In this case the net profit is 5¢.

7. Look again at the worksheet, "Pricing the Jam," and ask these questions:

   a. If you sell all 100 jars at $1.00 what will your gross profit be? Answer: $28.00
      Gross profit = Sales minus cost and delivery

   b. If you sell all 100 jars at $1.00, what will your net profit be?
      Answer: $16.00
      Net profit = Sales minus cost, delivery, and expenses

   c. If you sell all 100 jars at $1.15 what will your gross profit be? Answer: $43.00

   d. If you sell all 100 jars at $1.15 what will your net profit be?
      Answer: $31.00

8. Explain that the gross margin is usually expressed as a percentage rather than a dollar amount. That percentage is usually based on the selling price rather than the cost. Thus, the gross margin in the pie example is 40%. (If figured on a cost basis it would be 66 2/3%.)

$$\text{Gross margin} = \frac{\text{markup (40¢)}}{\text{selling price (\$1.00)}} = 40\%$$

9. Using the "Pricing the Jam" worksheet again, ask these questions:

   a. If you sell all 100 jars at $1.00, what will your gross margin (expressed as a percentage) be?

      Answer: $\frac{\$\ .28}{\$1.00} = 28\%$

   b. If you sell all 100 jars at $1.15, what will your gross margin (as a percentage) be?

      Answer: $\frac{\$\ .43}{\$1.15} = 37\%$

10. For further practice in calculating gross margin, use the following exercises:

    Calculate the markups or prices in each of the exercises below.

	Answers:
1. Cost $6; markup, $3. Find (a) retail price and (b) markup percentage.	1. (a) $9 (b) 33 1/3%
2. Retail, $15; markup, $6. Find (a) cost and (b) markup percentage.	2. (a) $9 (b) 40%
3. Cost, $3.50; retail, $7. Find (a) markup in dollars and (b) markup percentage.	3. (a) $3.50 (b) 50%

11. Explain to students that gross margin percentages vary with the nature of the merchandise and the type of store. Following are some common gross margin percentages:

Specialty goods - 50% or more
Appliances (standard goods) - 25%
Grocery - 20%
Gourmet - 50% or more
Perishable Foods - 35%

12. Write the above information on the board and ask students to suggest reasons for each of the above gross margin percentages. Possible responses:

Specialty goods -- high demand or high value
Appliances -- heavy competition
Grocery -- heavy competition
Gourmet -- image, high demand, high value
Perishable -- expenses include spoilage, special handling.

13. Explain that entrepreneurs usually do not apply the same margin on all items. They also do not use the same margin at all times. Instead, they attempt to achieve an average planned markup on the total of their sales. Thus, the owner of a convenience food store might set a 25% margin on such items as milk and crackers, and a 75% margin on such items as bottled artichoke hearts and Greek olives. The average planned markup is thus 50%.

14. List the following items on the board and ask students to predict whether the markup would be high, medium, or low, and reasons for their predictions. Suggested answers are provided but students may be able to point out reasons for different answers.

Item	Markup	Reasons for degree of markup
Sofa	high	storage and display space, low volume
Wall hanging	variable	specialty item
Swim suit	high	seasonal
Photo copies	low	competition
Star Wars T Shirts	high	short-lived appeal
Fresh spinach	medium	competition, spoilage
Jockey shorts	medium	competition, standard item
Apples	low	competition
Cosmetics	variable	image (prestige vs. store brand)
House plants	variable	high demand, special handling

Ask students to suggest other items to add to the list and discuss the markup on these items in the same manner. As a review, ask students to classify these items according to the categories presented in Unit VI.

15. Discuss the practice of charging above-normal prices in high demand circumstances. Ask students whether they have ever purchased fad items and what those items were (Pet Rocks, Star Wars T-Shirts). Ask students to estimate the cost to the businessperson of each fad item they bought and to figure the gross margin profit in a percentage on each item. Tell them that this practice is called "skimming the market."

    The opposite of skimming the market is called "penetration pricing," or setting one's prices abnormally low to become established in a market. Penetration pricing will be discussed later in this section, together with other markdown practices.

16. Introduce to students the other common pricing strategy used by small businesspeople--manufacturer's suggested price. This is a simplified approach to pricing used by many entrepreneurs. Ask students for examples of items they have purchased at the manufacturer's suggested price. Probably the only way they can know that they paid the manufacturer's suggested price is the way the price is marked on the packaging or the display--i.e., greeting cards, gift wrap, magazines, books, felt-tipped pens. Uniform pricing of this kind is part of the necessary practice among small businesses of remaining competitive with larger stores offering the same merchandise.

17. Discuss psychological pricing with students. This is the practice of pricing an item so that the price has a psychological appeal. Items priced at 99¢ rather than $1.00 are examples of psychological pricing. Multiple pricing, e.g., items priced at 3/$1.00, is also psychological pricing.

    Ironically, sometimes raising prices has a psychological appeal. For example, the owner of a fabric store may be able to purchase a designer fabric from a supplier at a special price, and try to pass the savings along to the customers. But the customers, who are used to paying a high price for the fabric, would be suspicious of a lower than normal price. They might suspect that the yard goods were seconds or damaged in some way. By raising the price or maintaining the usual high price, the fabric store owner is able to sell the stock more quickly.

18. In service industries pricing is much more closely related to the time used in performing the service than to any materials used. Because labor costs constitute a great part of the operating costs of a service business, it is essential to know how long a given repair, delivery or other service will take before establishing prices.

19. Point out to students that so far the discussion on pricing has been concerned with markup. Entrepreneurs also have to know when it's appropriate to mark down an item. Ask students for examples of markdowns that have convinced them to (a) buy something for which they might not have wanted to pay the original price, or (b) shop in a store they usually did not patronize. Ask students if they can name local businesses that regularly have these markdown practices:

Sales

grand opening sales	bulk item sales
pre-season sales	special purchase sales
end-of-season sales	clearance sales
special sales	promotional sales
	special occasion sales

Leaders

one item or a small number of items in a store sold at an unusually low price

Premiums

gifts, coupons, trading stamps

20. Write the categories on the board and discuss them.

Sales

- Grand opening sales. To attract customers to a new store or service, the owner will offer low prices on a few items. For example, a new telephone answering service may offer the first month of service free to customers who contract for six months service.

- Pre-season sales. To get an initial jump on the upcoming demand for seasonal items, business owners will hold pre-season sales. For example, a hardware store will discount prices on garden tools and outdoor building supplies during the winter thaw. A home decorating service may offer a spring redecorating sale.

- End-of-season sales. Seasonal sales are held at the end of a season (spring-summer, fall-winter) to turn the remaining stock back into cash to purchase more timely goods and to make room for the new goods as they arise. Clothing stores regularly hold end-of-season sales.

- Special sales. Incentives from the supplier can be the basis of a special sale. For example, a fish market can run a special sale on fresh flounder because an increased catch the day before resulted in an unusually low wholesale price to the owner of the market.

- Bulk item or special purchase sales. A businessperson might want to take advantage of an opportunity to purchase an item in a large quantity (and thus at a low price per unit) without having enough storage space for it all. He or she thus runs a bulk item (or "truckload") sale to sell the item quickly. For example, an auto parts store may have ordered a truckload of car-top racks because they were available at 60 percent of the usual wholesale price. Not having enough storeroom space for all the racks, the owner stacks them on the showroom floor and sells them at a greatly reduced price.

- Clearance sales. If some merchandise is selling too slowly, it takes up floor or shelf space that would be more profitably used for newer, faster-moving merchandise. The owner will cut prices in order to make room for the new merchandise, and to generate the cash needed to buy it. For example, a ceramic tile distributor will give a 50 percent discount on certain types of tile to speed up sales, and will then order other types to replace them that sell more quickly. Some stores hold regular clearance sales, such as end-of-month clearance sales.

- Promotional sales. If a business owner wants to introduce a new service or item, he or she may run a promotional sale to encourage customer acceptance of the product or service. For example, the owner of a shoe store receives a new style of sneaker and sells it at close to cost until the style "catches on." Once the sneaker is selling well, the businessperson knows that the lower price is no longer necessary and can therefore raise it to a more profitable level.

- Another type of promotional sale occurs when a business lowers the prices of certain items on days when sales have traditionally been low. For example, the owner of a dry cleaning business notices that there are generally fewer customers on Mondays and Tuesdays; he or she therefore discounts prices on these days to try to counteract the trend.

- Special occasion sales. Retailers take advantage of holidays to attract customers. A jeweler, for example, might offer heart-shaped jewelry on sale before Valentine's Day. Traditionally heavy shopping days are the Friday after Thanksgiving, Washington's Birthday, and the last days before Christmas.

Leaders

Items priced below their most profitable point or below the average markup are called leaders. For example, a photographer may offer an 8x10 color portrait usually priced at $15.99 and costing him $5 to produce at $7.99. "Loss leaders" are items selling at less than cost. Using the previous example, the photographer may offer the 8x10 color portrait for $3.99. Leaders are used to attract customers to additional merchandise or services at regular, more profitable, prices. The photographer in this example hopes to sell additional copies or other sizes of the same portrait at his regular prices. Loss leaders are most often used when the businessperson wants to clear old merchandise and accumulate cash.

Premiums

Gifts, coupons, and trading stamps are commonly used premiums that attract customers. A bank, for example, might offer an electric alarm clock free to customers who open new accounts for $1,000 or more, or who deposit $1,000 or more in existing accounts.

21 Add to this list of categories the term "penetration pricing." This is the practice of pricing below the normal market price. Penetration pricing is used by new businesses to get established. Once they are secure they can raise their prices to a normal level. Ask students for examples of penetration pricing.

UNIT VIII: HUMAN RELATIONS

SUMMARY: Human relations, involving self-knowledge, sensitivity to other people, and skill in communicating, is essential to the entrepreneur. The unit emphasizes awareness of one's own abilities, preferences, and limitations, and treats personnel management in the same context.

STUDENT LEARNING OBJECTIVES:

- Discuss the importance of job satisfaction.
- Identify his or her job condition priorities.
- Identify characteristics essential to entrepreneurship and set goals for developing those characteristics.
- Discuss the importance of good employer/employee relationships.

TEACHING STRATEGIES:

Part A: Personal Satisfaction: discussion, role play, worksheet

Part B: Employee Satisfaction: lecture, role play, discussion

MATERIALS PREPARATION:

Part A: Duplicate "Role Play Instructions." Duplicate "Student A," one copy each for half the students in the class; prepare "student B," one copy each for half the students in the class.

Assign students to bring the Help Wanted section to class.

Duplicate "Help Wanted," and "Goal Setting Worksheet."

Part B: Duplicate the role play "Denver Judo Academy," with half the students in the class receiving a copy of "Peter Hagiwara" and half receiving "Fran Murphy."

Duplicate the role play, "Security Fence Company," with half the students in the class receiving a copy of "Jack Ludwig" and half receiving "Max Scholl."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

2. "A Family Business." When a married couple begins to have personal problems in the business they own together, both their marriage and their business suffer.

Other Mini-Problems:

18. "Steve Foster." Students calculate Steve's take-home pay after deductions, based on information in a word problem.

29. "Checklist Exercise." Students rate a list of characteristics, some of which are considered to be essential traits of successful businesspeople, first in the abstract and then in personal terms.

32. "Just for Fun." Students brainstorm for methods of estimating the height of a tall building without using surveying equipment.

34. "Employee Turnover." Putting themselves in the place of a gas station owner with a problem of high employee turnover, students decide what they would do about it.

35. "Relatives." Students resolve a dilemma in which the owner of a diaper service is asked to hire her nephew as the driver of a new delivery van in spite of his record of traffic violations.

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PART A: PERSONAL SATISFACTION

1. Review terms: life style, personal satisfaction, tradeoffs, priorities.

2. Lead students in a listing of life style elements (leisure time needs, family life, travel, entertainment, interest in work, and so forth).

3. Ask students for some examples of the responsibilities which may prevent an individual from choosing an occupation (e.g., inability to travel because of need to care for an ill relative).

4. Explain that in this role-play activity students will make occupational choices to satisfy the life style preferences of fictitious individuals. Stress that they might have to compromise. Alert students to life style preferences to watch for: salary needs, hours of work, willingness to work over-time, willingness to travel, desire for career advancement, product interest, and so forth.

    a. Divide the class into pairs of students. One partner will act as the job seeker; the other as the counselor. Then, new profiles will be distributed and partners will switch roles.

    b. Distribute "Instructions to Students." Give role play sheet for "Student A" to one student, for "Student B" to the other.

    c. Emphasize that each pair should discuss the merits of each job in terms of the preferences of the job seekers. Ask students to record the job they agree would be most satisfying for the job seeker.

    d. Allow time for students to read the material.

    e. Allow about 5 minutes for the first role play.

    f. Circulate to see that job seekers are actually following the description in their profile and that counselors adopt a helpful attitude.

    g. Ask partners to switch roles.

5. Guide the discussion after the role plays.

a. A summary of the advantages and disadvantages of each job is as follows:

Jobs for Jo

#1 Mighty Burger, Inc. Restaurant Chain Checker

Advantages: works alone; food business; no overnight travel
Disadvantages: salary; report-writing after work hours

#2 Sports Unlimited Wholesale Store Sales Representative

Advantages: sports; no overtime; small business
Disadvantages: not in field; low salary

#3 All Foods Supermarket Supermarket Meat Department Manager

Advantages: familiar work (meat department); adequate salary; good fringe benefits
Disadvantages: supervises employees; undesirable hours

Jobs for Chris

#1 Historical Society Brochure Writer

Advantages: writing (English teacher); history; illustrations; creative job; temporary job
Disadvantages: overtime

#2 Avant Art Gallery Art Gallery Sales Clerk

Advantages: art; creative job
Disadvantages: low salary; sales work

#3 Look Here Photo Studios General Manager

Advantages: creative job; photography, no overtime required
Disadvantages: sales work; supervision of others

b. Ask students to explain the trade-offs they made: how they decided a job which satisfied some preferences was more desirable than another; how they decided that particular preferences were more important than others.

c. Point out to students that there are no "right" or "wrong" answers. However, some jobs are more obviously appropriate for some people or more obviously appropriate for others.

d. Ask students to discuss whether they would have made different choices if fewer considerations had been included. For example, if starting pay were the only consideration, would some job seekers have selected a different job from the one they chose?

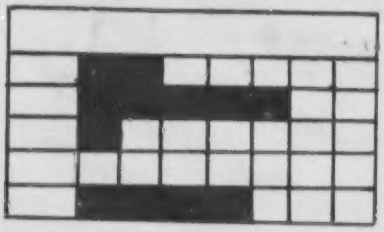
e. Ask each student to consider each of the jobs presented in terms of his or her own personal preferences and to select the one most likely to satisfy him or her. Students should also consider how satisfying their choice might be in the larger universe of possibilities, rather than simply in terms of the best of the jobs given.

6. A week before you introduce the following activity, ask students to save the "Help Wanted" section from the Sunday newspaper. Instruct them to bring this section to class the day you introduce the activity. Explain that this activity will help them sort out the things that are important to them in a job. It is irrelevant, for the purposes of the exercise, that almost all of the jobs listed in the Help Wanted section will be non-entrepreneurial in nature.

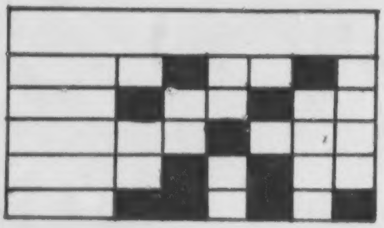
a. Ask students to skim all Help Wanted categories (general help, business help, sales, medical, professional, household, etc.) and to circle ads that appeal to them in any way. They need not be concerned whether they are qualified for a job, only whether it appeals to them. (If your town's Help Wanted section is very long, you should tell student to read one page of each category of job ads.) Point out that because want ads are not uniformly written, one has to assume or infer some job characteristics, such as standard fringe benefits that are not always mentioned in help wanted ads. For example, many airline employees, and sometimes their families, are able to fly free on their employer's planes a certain number of times per year. Retail stores usually offer employee discounts on the merchandise they carry.

b. When students have finished circling ads, distribute the Help Wanted worksheet. Ask students to apply the circled ads to the items on the worksheet. Go over the instructions, making sure that students understand how to fill out the worksheet.

Emphasize that they should end up with a horizontal bar graph looking like this:



They should not end up with a worksheet which looks like this:



c. When they have finished, tell students that they now have a graph of their work priorities. The longest bars represent what is most important to them in a job, the shortest or non-shaded areas what is least important. Suggest to students that in the following weeks they repeat this exercise, continuing to fill in the same graph. A wider sampling of ads will yield more valid results.

d. Discuss with students how this activity relates to entrepreneurship. Ask:

- Which of the priorities on the worksheet can be satisfied in entrepreneurship?
- Which cannot?
- How likely are a person's priorities to change over time?
- What might cause such changes?
- If your present priorities cannot be satisfied in entrepreneurship, but you think that sometime in the future you will be interested in owning and operating your own small business, what can you do in the meantime to prepare for it?

7. Lead students in making a list of characteristics that might describe an entrepreneur. The list will probably include:

- analytical
- friendly
- able to inspire loyalty
- well organized
- energetic
- independent
- decisive
- confident
- healthy
- hard working
- innovative
- open to suggestions
- able to communicate.

8. Ask students to react to the following statement, backing up their opinions with examples:

> Individuals either have the necessary personal characteristics to be a small business owner or they do not. These personal characteristics cannot be acquired.

9. Discuss with students how a person assesses his or her own characteristics. Past performance on a job or in school is one indicator. Friends, teachers, and parents can also help a student assess personal characteristics.

10. Discuss with students how a person develops skills and traits. Ask students for suggestions for developing each of the characteristics on the list they generated in #7.

11. Explain to students that this next activity will help them work at developing the characteristics that help an entrepreneur be successful.

12. Distribute to each student a copy of the Goal Setting Worksheet. Ask students to complete the worksheet, using the list of characteristics they generated as a source of information. Explain that this method of working toward goals is an example of the self-discipline and independence they will need to practice as entrepreneurs.

ROLE PLAY INSTRUCTIONS

Instructions to All Students

The object of this exercise is to select jobs which would be most satisfying to two fictitious people. To do so, you will have to consider what the person likes to do, what type of life he or she wishes to lead, etc. You will also have to examine the jobs described to decide if and how they satisfy these interests.

You may not be able to satisfy all interests and preferences. You may have to choose a job which satisfies most interests or satisfies the most important ones.

1. Each of you will play the role of a person looking for a job (a job seeker) and of a person assisting the job seeker in selecting the most satisfying job (a job counselor).

2. The teacher will tell you who will act as counselor and as job seeker first. You will switch roles after one round.

3. Take a few minutes to read your own instructions and your own profiles.

4. After examining your biographical sketch the job seeker explains his or her preferences and interests to the job counselor, based on that sketch. Remember that you are to act as the person described in the sketch, even if you personally have different preferences.

5. The job counselor should explain the various jobs to the job seeker.

6. Together you should select the job most likely to provide personal satisfaction to the job seeker as described in the biographical sketch. Evaluate each job and state the reasons why it would or would not satisfy the individual.

Then you will switch roles. The new job seeker will use a new biographical sketch. A new counselor will consider three different job profiles. The same process is repeated.

Instructions to Counselor

1. You are to act as a job counselor to a person seeking employment as described in your job profile, and not as yourself.

2. In this role, you will have to describe the job openings to the job seeker. The job seeker will not have a copy of the job openings so he or she will not know what jobs are available until you tell him or her.

3. Include in your description the nature of the company; the type of position open; the type of person they are looking for; and characteristics of the job, such as how many overtime hours are required.

4. You and the job seeker, together, must decide which job would suit the job seeker best.

5. In matching, you must help the job seeker to decide what is most important to him or her. For example, is he or she most interested in making money or in being able to stay close to home?

Instructions to Job Seekers

1. You are to act as a person seeking employment. You must act as the person described in your job profile, and not as yourself.

2. Explain to the job counselor your background, your career objectives, your outside interests, and any personal problems which might affect the type of job you want. The job counselor will not have a copy of your biographical sketch, so he or she does not know who you are until you tell him or her.

STUDENT A

First Role Play

You will play the role of Jo, a job seeker.

You recently had to close your butcher shop. It was a neighborhood store which you owned and ran for eight years. Recently, however, two large supermarkets moved into the area and since then you have been losing money. You prefer to work alone, and you are looking for a job that will permit you to do that. You would like to remain in the same line of work. You spend a lot of time at sports. These sporting activities include membership in a bowling league and softball when the weather permits. You are married and have three children. Because of your interest in sports, you spend most weekends and evenings teaching and playing sports with your children. You can't afford to be out of work for long and you need to earn at least $15,000 to support your family. You would definitely like to have your evenings and weekends free in order to continue to spend time with your family. You believe that family is more important than money--or much else.

Second Role Play

You will play the role of the job counselor, with these job openings to offer to Chris.

#1 Historical Society Opening: Brochure Writer

The local Historical Society has received a grant to produce a visitor's guide to the town. The guide must describe the town's historical spots and also its tourist facilities--hotels, motels, restaurants, night spots, theaters and so forth. In a sense, the brochure will be advertising for the town.

The president of the Historical Society is recruiting three writers to produce the brochure. Maps and illustrations will be included in it. The individuals hired must know history, the town, and, of course, be skilled writers.

The job is temporary--it will last for a year, until the guide is complete. The salary is $8,000 for the year. A fair bit of overtime may be required, because the guide must be complete by the end of the year, no matter how much time it takes to get it done.

#2 Avant Art Gallery Art Gallery Opening: Sales Clerk

Avant Art Gallery is a small new local gallery which carries the works of local artists. Paintings, drawings, sculptures and handcrafted jewelry are sold at the gallery. It is located in the commercial section of town, because the owner/manager hopes to attract customers into the gallery when they are doing their regular shopping.

The owner of the gallery, when it first opened, did everything herself. Now, she feels confident enough that the gallery will succeed that she has decided to hire a sales clerk. She can't afford to pay very much--the salary is $6,000 per year. She hopes applicants for the job really enjoy art so they can converse with customers and also with her. (It is lonely in the shop when no customer is in.)

The Avant Art Gallery was started on a shoe-string. Most of the art is there on consignment--that means that the gallery owner did not buy it. If she sells it, the artist gets paid and then the Gallery takes a fee.

#3 Look Here Photo Studio Opening: General Manager

Look Here Photo Studio is looking for a new general manager. Look Here is a medium-sized studio which specializes in innovative approaches in family portraits and group special occasions (weddings, graduations, parties and so forth). The new manager will be responsible for greeting customers and taking their orders, supervising the studio's five photographers, developing prints and designing interesting backdrops for indoor photographs, and occasionally doing some photography. The starting salary will be $13,500. No overtime is required.

STUDENT B

First Role Play

You will play the role of the job counselor, with these jobs openings to offer to Jo.

#1 Mighty Burger, Inc. Restaurant Chain Opening: Checker

Mighty Burger, Inc. is a nationwide restaurant chain, well-known for its fast service and excellent hamburgers. Its menu is limited, like most fast-food operations, but its service and quality of food rate highly.

The company needs a new checker for this area. The checker will cover a territory of 100 miles. The job requires that the checker visit each local restaurant, and order a meal like any other customer, to check the quality of the service and of the food served. The checker does not, of course, have to eat a complete meal in every place he checks. The company will train the checker in what characteristics to look for, and how to check out the quality of food without eating every last morsel.

The starting salary is $13,000. Rarely does the checker need to stay in an area overnight. Most trips can be made in a day's time with the whole territory covered every month.

The checker must file reports with the company's branch office. Sometimes, these have to be done after day-time hours if the checker has spent a lot of time traveling that day.

#2 Sports Unlimited Wholesale Store Opening: Sales Representative

Sports Unlimited is a wholesale store which supplies sporting goods to retailers. Their products include tennis equipment, ice skates, basketballs, footballs, etc. They are presently looking for a sales representative. Sports Unlimited does have a training program but it is not very extensive. It basically involves observing other salespersons with clients. The company prefers that its new employees know about sporting equipment--i.e., the advantages and disadvantages of a steel versus a wooden tennis racquet. But it will hire people who do not have this previous knowledge. It realizes its customers, the retailers, are quite knowledgeable about the products.

The hours for this job are 9 a.m. to 5 p.m. It never requires overtime. The starting salary is $11,500. The career ladders are well defined. The sales representative can advance from a small sales territory to a larger one, and from there to manager of a line of products (e.g., the line of football equipment).

#3 All Foods Supermarket   Supermarket   Opening: Meat Department Manager

All Foods Supermarket is a large supermarket in a suburban area. All Foods is looking for a new manager for its meat department. The hours will be 3 p.m. - 11 p.m. The duties include supervising the employees in the meat department, checking the meat for quality and compliance with All Foods standards as it comes in, and assisting in the butchering of the meat for packaging. All Foods has excellent employee fringe benefits, including an outstanding family health insurance plan, good vacation benefits, and a retirement plan. Starting salary is $15,000.

Second Role Play

You will play the role of Chris, a job applicant.

You are an extremely artistic and creative individual. You attended college and received a degree in liberal arts, majoring in American History and Art. You taught History and English in junior high school for six years. You spent your spare time in creative activities such as writing short stories, photography and painting. You have been known to stay up until three in the morning, before a work day, exercising your artistic talents. You believe that a job must either stimulate your creative desires or allow sufficient spare time to pursue your creative interests on your own. You are unsure about your career objectives since your interests are so varied.

WORKSHEET

HELP WANTED

Instructions: For each Help Wanted ad you have circled, shade in the left-most squares for the factors that apply to that ad. Do not use a separate vertical column for each ad. Rather, work across the columns so that, in the end, you have a horizontal bar graph.

This job appeals to me because it is:

full time											
part time											
temporary											
permanent											
with a good employer											
loosely structured											
highly structured											
indoors											
outdoors											
in a large organization											
in a small organization											

This job appeals to me because it offers me:

a good salary											
a desirable location											
a job title I like											
security											
opportunity to travel											
opportunity to advance											
prestige											
good fringe benefits											
a chance to learn something new											
an opportunity to use my skills											
a chance to meet new people frequently											
a chance to supervise people											
a pleasant working environment											

GOAL SETTING WORKSHEET

Characteristics I Need to Develop	Ways I Will Develop This Characteristic	When I Will Work On This Characteristic	Ways I Will Measure My Success

VIII-S-246

PART B: EMPLOYEE SATISFACTION

1. Emphasize that good employer/employee relationships are critical in maintaining an efficient, hardworking and responsive staff. The employer sets the tone of this relationship by showing fairness to the employees in matters relating to the job. Good management techniques include:

   - prompt payment of salaries
   - provision of sufficient instructions or training to enable the employee to carry out the assigned work
   - advance notice of job termination or layoff when the employer finds that there is not enough work for the employee to do, or that diminishing revenues will not permit the employee's salary to continue to be paid.
   - keeping the lines of communication open between employer and employee, so that problems can be discussed before they become too large or serious.

2. Ask the students for additional examples of good management practices.

3. Tell the students that they may obtain information on good management techniques through the Small Business Administration's management division. Explain that the Small Business Administration provides workshops at the regional level to assist entrepreneurs in building or improving their management skills.

4. Tell students that as a demonstration of the importance of employer/employee relations, they will participate in two role plays. The role plays may be done by all students in pairs at the same time, or volunteers can perform them for the class.

5. Distribute "Denver Judo Academy," one role to each student in the pair(s). Ask students to act out the role play of Peter Hagiwara and Fran Murphy, owner and instructor, respectively, of the Denver Judo Academy. Ask students to devise a solution to the problem that is acceptable to both of them in the role play(s) if this is possible.

6. Discuss the role play when it has been completed. In the discussion, elicit the fact that knowledge of the specialty (judo) and knowledge of business are both essential to a successful enterprise. A wise employer listens to suggestions for improvement, whether the suggestions

come from employees or from others. Also elicit the fact that a good employee is an asset to the business: the employer needs to recognize and use the employee's skills or run the risk of losing him or her.

7. Distribute "Security Fence Co.," one role to each student in the pair(s). Ask students to act out the role play of Jack Ludwig and Max Scholl, owner and employee, respectively, of the Security Fence Co. Ask students to devise a solution to the problem that is acceptable to both of them in the role play(s), if this is possible.

8. Discuss the role play when it has been completed. In the discussion, elicit the fact that an employer has an obligation to satisfy his or her employee's work preferences if possible. If this is not possible, it is best for both of them if they terminate the employment relationship.

ROLE PLAY:

Denver Judo Academy -- Peter Hagiwara

You are Peter Hagiwara, owner of the Denver Judo Academy. After pursuing judo for a number of years as a hobby, you opened your own academy a year ago. As you have won many national judo competitions, you know that there are few people as good as you at judo, and certainly none in Denver.

Four months ago, you hired Fran Murphy as a full-time judo instructor to take over some of the academy's classes. Fran had worked at a judo school in California before coming to Denver, and you have to admit that she is quite good as a judo teacher. However, you are having some serious problems with her, and you are thinking of firing her.

The trouble is that Fran thinks she owns the business. She tries to make all the decisions, tries to set up elaborate new advertising campaigns and tries to introduce discount membership plans for families and groups. Once she even told you that you were teaching a particular technique the wrong way!

You have your ways of running the academy. It's true that they are simple, straightforward ways, but they're yours. After all, you own the business, and it's your money that would be lost if the academy goes under. You're entitled to your way of doing things--especially since the business is doing reasonably well.

You have decided that you can't put up with Fran's arrogance any longer. You are going to tell her she'd better shape up or be fired.

ROLE PLAY:

Denver Judo Academy -- Fran Murphy

You are Fran Murphy, a judo instructor at the Denver Judo Academy. You have been working at the academy for four months, ever since you came to Denver from California, where you had worked at another judo school.

You recognize that your boss, Peter Hagiwara, is excellent at judo. His physical grace and his accuracy are beautiful to watch, and you have told him so. However, you've had other problems with him that are getting so unpleasant that you're almost ready to look for another job.

The trouble is that Peter knows judo, but he doesn't know business. The only judo academy in the whole city of Denver should have five times as many students as it does! It's no wonder, too. Peter doesn't want to advertise, except for a poster at the local supermarket. He insists on having classes only from 9 to 5 during the week and from 9 to 1 on Saturdays, which means he loses most of the working people as customers. You have proposed advertising campaigns which wouldn't be greatly expensive and have suggested extended hours to get the business of working people, but he's not interested. You know from your old job that family memberships at discount rates bring in a lot of students, but Peter refuses to listen.

It is so frustrating for you to see what should be done to improve the academy and to have your suggestions brushed aside, that you decide to talk it out with Peter. If he ignores what you have to say this time, you'll quit.

ROLE PLAY:

Security Fence Company -- Jack Ludwig

You are Jack Ludwig, owner of the Security Fence Co. Your company manufactures chain link and other metal fences. You have 35 employees, of whom 15 work in the factory making the fences. (The others are fence installers, officer workers, and salespeople.) Max Scholl is one of your factory employees. You hired him only two weeks ago, but you can already see that he's not working out.

Max has come to work late at least four times so far. You assigned your foreman to teach him how to operate the machine that bends the wire into the shape needed for the chain link fences, and the foreman tells you that Max isn't learning very quickly. To tell the truth, the foreman says, Max doesn't seem to care much if he learns how to use the machine or not. Sometimes when you come into the factory, you see Max either standing around or distracting the other employees by talking to them.

Earlier this week you gave Max a warning that he'd better get down to work. You see he hasn't, so you're about to fire him.

ROLE PLAY:

Security Fence Company -- Max Scholl

You are Max Scholl, an employee of the Security Fence Company. You work with 14 other people in a factory making chain link and other metal fences. The company employs 35 people in all; the others are fence installers, office workers, and salespeople. You got this job two weeks ago.

Jack Ludwig, your boss, is a lousy person. He's always nagging at you to work harder. For Pete's sake, you need a break sometimes! The machine the foreman has been teaching you, the one that bends the wire for the chain link fences, is so loud it hurts your ears. The metal shavings get in your clothes and under your fingernails. The other workers must be scared to death of Ludwig, though. They stick to their machines as if he were watching them every minute. Maybe he does--you notice he snoops around to see if he can catch people taking a minute off. He's already told you you don't work hard enough.

To tell the truth, you hate this job. It doesn't pay a lot of money, it's dirty and smelly and noisy, the other employees are snobbish, and the boss is a real loser. If Ludwig complains about your work once more, you'll quit.

UNIT IX: FINANCING A BUSINESS

SUMMARY: Securing the initial investment capital and managing finances properly after starting a business are major concerns for the new entrepreneur. Students must understand both these activities in order to succeed in a small business venture. The business proposal required for a loan application uses many of the standard accounting procedures that will be maintained in the running of the business.

STUDENT LEARNING OBJECTIVES:

- Understand basic financial terminology and use it correctly.
- Recognize possible sources of capital and identify the kinds of capital required to start a small business.
- Complete the forms required for applying for a business loan.

TEACHING STRATEGIES:

Part A: Preparing to Obtain a Loan: lecture, discussion, information sheets.

Part B: Preparing Personal Information: in-class exercises and case study, homework case study.

Part C: Preparing Business Forms for a Loan Application

C.1: Introduction: lecture, discussion

C.2: Accountant Guest Speaker: speaker, discussion

C.3: Preparing A Business Description: lecture, exercise

C.4: Sources and Applications of Cash: lecture, exercise and discussion

C.5: Preparing A Balance Sheet: lecture, exercise, and discussion

C.6: Income Statement and Projected Income Statement: lecture, exercise and discussion

C.7: Cash Flow Statement: lecture, exercise, and discussion

C.8: Loan Officer Guest Speaker: speaker, discussion

MATERIALS PREPARATION:

Part A: Preparing to Obtain a Loan: Duplicate "Glossary of Financial Terms." Order SBA's "Checklist for Going Into Business," SMA #71.

Part B: Preparing Personal Information: Duplicate "Sample Personal Resume," "Personal Resume Form," the In-Class Case Study "Completing a Personal Financial Statement," the Homework Case Study "Personal Financial Statement." Duplicate the worksheet "Personal Financial Statement," two copies per student.

Part C: Preparing Business Forms for a Loan Application:

C.1: No preparation.

C.2: Invite speaker.

C.3: Duplicate "Sample Business Description."

C.4: Duplicate the Worksheet, "Sources and Applications or Cash," two copies per student. Duplicate the In-Class Case Study, "Sources and Applications of Cash" and Homework Case Study, "Sources and Applications of Cash."

C.5: Duplicate the "Sample Capital Equipment List," "Sample Detail Balance Sheet," the In-Class Case Study, "Balance Sheet," and the Homework Case Study, "Balance Sheet." Duplicate the Worksheet, "Balance Sheet," two copies per student.

C.6: Duplicate the "Sample Projected Income Statement," the "Sample Income Statement," the In-Class Case Study, "Projected Income Statement," and the Homework Case Study, "Projected Income Statement." Duplicate the Worksheet, "Projected Income Statement," two copies per student.

C.7: Duplicate the In-Class Case Study, "Cash Flow Statement," the Homework Case Study, "Cash Flow Statement." Duplicate the Worksheet, "Cash Flow Statement," two copies per student.

C.8: Invite speaker.

MINI-PROBLEMS

Women and Other Minority Entrepreneurs:

10. "Financing." Facts, figures and strategies for businesses owned by minorities and women.

Other Mini-Problems:

13. "Bank Statement." Students reconcile a luncheonette's checkbook register with a bank statement.

16. "Credit in Alaska." Students choose between the role of a store owner and a customer in a problem involving an insufficient credit rating for a charge account.

26. "Paper Airplanes." The exercise calls for students to write instructions for making a paper airplane, and stresses clarity, conciseness and accuracy of written language.

30. "Vincent Martino." Having come upon hard times, the owner of a small factory making metal garden rakes and hoes has decided to cut his salary and that of his 25 employees by 10 percent as a means of regaining financial stability.

37. "Limited Resources." Given a limited amount of money and large debts and expenses, the students are asked to decide what the owner of a window washing service must pay immediately and what can be postponed.

REFERENCES:

Fran, Eugene H., Small Business Credit and Finance, Dobbs Ferry, New York: Oceana Publications, Inc. 1966.

Nicholas, Ted. Where the Money is and How to Get It, Wilmington, Delaware: Enterprise Publishing Co., Inc. 1973.

INSTRUCTOR'S OVERVIEW

The purpose of Unit IX, "Financing Your Business," is to provide students with the skills and knowledge required to obtain a small business loan, under the assumption that most students in the course are planning to start a business in the near future. A variety of teaching strategies have been built into the curriculum to bring students, step-by-step, from:

- an initial awareness of the procedures and forms required to obtain a business loan;
- through the principles, purposes, and techniques of completing the major forms required to obtain a business loan;
- to the actual application for a loan at a commercial lending institution, if so desired by students.

These strategies include lectures, in- and out-of-class exercises, the use of guest speakers, and finally, student contact with lending institutions and loan officers. The students should complete the unit with an increased confidence in their ability to handle the loan application procedure and with sufficient technical skill to carry out the planning and forms preparation required to obtain a loan.

Classroom Instruction

The instruction, leading up to the student project, will occur in the classroom setting. This material focusses on the knowledge and skills required to complete a loan application by means of lectures and exercises which are designed to help students understand how to complete forms and how to make planning projections for their new businesses. The lecture materials, exercises and forms appear as Unit IX, Parts A through C.7.

Other Materials

Another instructional aid for presenting the contents of this Unit to the class is "The Dow Jones-Irwin Business Papers," which covers much of the same material and includes tear-out forms needed in creating a business.

NOTE: The instructor is advised to order the "Checklist for Going Into Business" from the Small Business Administration (see Materials Preparation for Part A of this Unit) six weeks in advance of the expected date of the discussion of the pamphlet, to allow for processing of delivery.

PART A: PREPARING TO OBTAIN A LOAN

1. Distribute copies of "Checklist for Going Into Business." Ask the class to look through the pamphlet. Explain that the booklet points up some of the issues they should think about before applying for a loan. Have the class go through the "Checklist" in class for an overall grasp of its contents.

2. Explain to students that a business operation may be thought of as a pool of funds coming from a variety of sources, such as investments by the owners or others, creditors who lend the business money through deferred payment to them, and past earnings retained in the business. The purpose of this unit will be to examine the types and potential sources of this pool of funds to begin a new business or to purchase an existing business. The unit will also deal with the outflow of money from the business in the form of business expenses, such as rent, utilities, salaries, purchase of supplies and stock, that are required to conduct the business.

3. Tell the students that they will be learning how to obtain a loan from a commercial lending institution in the course of this unit, as part of the total effort of acquiring enough capital (money) to start their own business. Point out that many of the required steps and procedures in obtaining a loan will relate directly to concerns which have been covered earlier in this course during the year. These include initial marketing efforts, planning, recordkeeping, choice of location, and promotional techniques. Point out that they will also need to learn about accounting techniques. Tell them that an accountant will visit the class to explain some basic principles of accounting.

4. List on the board the types of activities which will be included in the unit. Specifically, students will learn to complete:

   - a Personal Resume and a Personal Financial Statement
   - a business description
   - a Sources and Applications of Cash Statement
   - a Balance Sheet
   - an Income Statement
   - a Cash Flow Statement

5. Allow time for students to ask questions about the content of the unit. Some areas of concern may be:

   - How much math will be needed? The unit has been designed to provide students with increasingly challenging problems as it progresses, but the first problems will be quite simple and are intended as a refresher for business math. Students should be able to handle the math.

   - Where will the dollar amounts required to complete the loan forms come from? These dollar amounts are presented in a series of case problems. The figures will be taken directly from the case study.

6. Distribute "Glossary of Financial Terms" for out-of-class study and reference. (See Appendix)

PART B: PREPARING PERSONAL INFORMATION

1. Tell the class that they will need to prepare two kinds of information before obtaining a loan to begin their business.

   (1) They will need to prepare information that will tell the loan officer about the background of the person or people to begin the business. This will include;

   - a Personal Resume
   - a Personal Financial Statement

   (2) They will also need to prepare information that will tell the loan officer about the business to be started. If the business is new, the information will be based on plans and projections; if you are purchasing an existing business, the information will also concern the actual history of the business.

2. Distribute the sample personal resume and a blank form. Point out to the students that the purpose of the resume is to provide the loan officer with a picture of the individual's (or group's) capabilities, education, and experiences, especially as those elements relate to their ability to operate the specific business which they hope to start. For example, someone who wants to start a graphics display service should provide some evidence of knowledge about art, design, etc., as well as business management ability. This background may have been obtained through education, work experience, or special interests, or a combination of all these elements. The important thing to remember is that the resume will let the loan officer know what your background is and allow him or her to work with you as a person they know something about, not just a person sitting in a loan office. This is because the loan officer is responsible for protecting the bank's money, meaning the depositors' money, so he or she must find out if you are a good risk. If students do not understand the concept of "a good risk," explain it to them.

3. Ask the class to prepare factual personal resumes on the blank form, using additional pages if needed. They should include:

   - name
   - address
   - educational experience: schools attended, diplomas and/or degrees, major subjects, most relevant courses
   - work experience: for each job, name and address of employer, job title, short description of the job, and length of time (dates) employed
   - special interests that are relevant to your business plan or that the reader should know about you.

Some people also include the names, addresses, and telephone numbers of references: people who may be reached to validate work experience or character. Women especially should know that by law they are not required to specify marital status or whether they have children.

4. When the personal resumes have been completed, either in class or as homework, ask students to evaluate their own resumes in terms of the experience, education, and interests listed, and to list several types of businesses which they believe that their resumes would provide a basis for.

5. Introduce "Personal Financial Statement." Tell the class that this is simply a compilation of different kinds of records they already have (or will have) when they are working and when they have bank accounts.

6. A personal financial statement includes a list of your personal assets (what you own outright or what you can convert to cash or cash on hand) and your personal liabilities (money you own to someone or to an institution on a long- or a short-term basis). The purpose of the personal financial statement is to let the loan officer know:

   - what your general financial status is;
   - how much money you have available to invest in the business;
   - whether you have credit references from current loans; and
   - how well you appear to handle your own finances.

   The personal financial statement would be completed from your existing personal financial records. To document your assets, you will need to consult your check book and savings passbook for cash assets, notes or I.O.U.s which indicate money owed to you by others, bills of sale or current appraisals of property for which you have paid to indicate your fixed assets. To determine your liabilities, you will need to consult your check book for outstanding, ongoing payments for short- and long-term debts, monthly bills which indicate the total amount you owe in revolving or time payment charges, and bank records which indicate specific loans which have yet to be repaid. These are to be entered on the personal financial statement form.

7. Distribute copies of the in-class case study and a blank form Ask the students to read through the case study and to examine the form.

8. Using the in-class case study, ask students to participate in filling out the blank form. (It may be helpful to draw a large form on the board or an easel pad to fill in as the case study progresses.) The questions at the end of the in-class case study may be used to guide students in filling out the personal financial statement form, and to serve as a basis for discussion. Answers to the questions:

   1. $5,400 in savings. Her checking account balance of $450 is expendable income.

   2. None.

   3. $560, or 56 x $10 per share.

   4. Yes, she can count her car as $100 in assets.

   5. $6,060, or $5,400 in savings plus $560 in stock plus $100 from her car.

   6. The savings account.

   7. $300.

   8. $180 rent (or ½ the total $360), $22 telephone bill, $20 (or 1/3 of $60) for insurance. Her other bills, such as revolving charge payments, are balanced off the total credit liability of $300.

   9. $522, or $300,plus $180,plus $22,plus $20.

   10. Her assets.

   11. Yes.

   12. Yes.

   13. and 14. For the class to discuss.

9. When the in-class case study about Alva has been completed, distribute the Personal Financial Statement problem about Eric Grossman, to be done as homework. Answers for that problem are:

1. The Grossmans' total cash assets are $2,231.53.

2. Eric will collect $2,625.00, including interest.

3. Eric can consider the assets from his house and his car to be:

   (a) the house: $13,200 or $10,000 down payment plus $3,200 in mortgage payments to date.

   (b) the car: $650 "blue book" value.

4. The Grossmans still owe money on:

   (a) the long term debt of $44,800 as unpaid balance (i.e., principal and interest) for the house.

   (b) short term monthly debts (i.e., bills) of $630 for living expenses.

   (c) they have no credit cards.

5. Their total assets are:

   (a) $2,231.53 in cash assets (savings and checking accounts)

   (b) $2,625 for the loan to his brother-in-law, which falls due next month.

   (c) $13,200 for the house and $650 for the car.

The Grossmans' total assets are $18,706.53 in all.

6. The Grossmans' total liabilities at the present time are $45,430, including their long term mortgage debt and their current monthly expenses for this month.

7. He will need $1,240 for the two months, yes, he can meet these expenses.

8. $4,856.53 total cash available in the next two months.
   -1,240.00 living expenses for next two months

   $3,616.53 available to invest in the business

9. His house and his car.

PERSONAL RESUME

Preparing a resume is the first step in packaging your loan request. A resume is a written picture of you and tells the lender who you are, what you are doing now, and what you have done in the past. The lender will need to know about you, as you are the key to the success of your business.

The following is an example of a well-prepared resume.

Name:	James W. Johnson
Home Address:	42 West Third St., Los Angeles, CA 90000 Phone: 622-2223
Personal:	Born May 23, 1943 in Los Angeles. Social Security Number: 108-30-0676
Job Experience:	
1/1976-Present	Parts salesperson for Sportscars Unlimited, 30 Jay Street, Los Angeles, CA.
10/1964-12/1966	Shipping clerk, Sportscars Unlimited My first job at Sportscars was as a clerk in their shipping department where I received, inspected and recorded deliveries of parts. In January of 1967, I was promoted to salesperson and during the past six months I have managed the business for my boss whenever he was away.
1959-1961	Summer and part-time after school, I sold gas and did minor repair work at Al's Tire Center, 590 Pinewood Avenue, Los Angeles.
Military:	
9/1961-9/1964	After graduating from high school, I enlisted in the Army. I was assigned to 32 weeks training in Machine Repair School and spent the rest of my time driving and servicing motor pool cars. (This included requisitioning necessary parts.) I received an Honorable Discharge in 1964.
Education:	Graduated from Central High School, June 1961. Army Machine Repair School; completed 32 weeks. Currently taking "Beginning Accounting" in the evenings at City College.

Other Interests: On weekends I work in the pit crew of a friend who races professionally at Meadows Speedway. I am also a member of "Big Brothers."

Character References:
Mr. William Edwards, present employer; owner of Sportscars Unlimited.
Mr. D. R. Redding, Professor of Accounting, City College.
Captain Joseph Hartnett, Fort Ord, Commanding Officer

Adapted from "How to Apply for a Small Business Loan," United Bank of Denver; Denver, Colorado.

PERSONAL RESUME

IN-CLASS CASE STUDY

PERSONAL FINANCIAL STATEMENT

Alva Wilson has been planning to start a bakery for several years As an employee of a large commercial baking firm, she has managed to save $5,400 in a savings account. She also has $450 in her checking account at the present time, but this money is needed to use for living expenses such as food, rent and for payment of bills. Her company has also provided Alva with an option to buy stock, with an employee contribution taken from each paycheck and an equal contribution by the company. She now has 56 shares of Consolidated Foods stock which are worth $10 per share.

Alva rents an apartment with her sister Sylvia for $360 per month, each sister paying half. All utilities are covered by the rent with the exception of telephone, which normally runs about $22 a month. Alva pays the entire bill. She also carries a life insurance policy which requires a payment of $60 quarterly (every three months). Her 1965 Dodge is fully paid for and her mechanic says that, although the car is still running well, it is worth only $100 by the Blue Book value. Alva also has a balance of $300 in her revolving credit card bill; although she pays approximately $20 per month towards this debt, her new charges each month usually equal what she pays.

Alva has worked for the Consolidated Foods Bakery for seven years and now has the position of head pastry cook. She is an excellent cook and has many ideas about the types of baked goods she would like to make and sell. She has found a good location and plans to rely on customers coming into the store from the neighborhood, rather than distributing her baked goods to retail outlets across the city. Therefore, Alva will need to set up a shop in addition to the actual bakery at her new location.

CASE STUDY QUESTIONS

1 How much cash can Alva count on as an asset?

2 How much money is owed to Alva in notes, debts, etc.?

3 How much stock can Alva consider in determining her total assets?

4 Can Alva count property such as a home, equipment, or an automobile as assets?

5 What are Alva's total assets?

6 Which of Alva's assets are most immediately available for investment in the business?

7 What are Alva's charge account liabilities?

8. What other bills are payable?

9. What are Alva's total liabilities?

10. Which are greater, Alva's assets or her liabilities?

11. Could Alva pay off her current debts, such as the credit card, with her assets?

12. Could Alva live without a salary for a period of time while she starts up her business?

13. If you were a loan officer, do you think that Alva would be a good credit risk for a business loan, given everything that you know about her?

14. Do you think there is anything else the loan officer might want to know about Alva's finances before giving her a loan?

PERSONAL FINANCIAL STATEMENT

for applicant ALVA WILSON

(Assets)

I (we) own the following:

Cash (checking and savings accounts) . . . . $________

Money owed to me (us) . . . . $________

Notes . . . . $________

Stocks & Bonds . . . . $________

Home and other real estate . . . . $________

Equipment and tools . . . . $________

Automobiles . . . . $________

Other . . . . $________

Total Assets . . . . $________

(Liabilities)

I (we) owe the following:

Charge accounts and other bills payable . . . . $________

Total payable on automobiles . . . . $________

Real estate loans . . . . $________

Other . . . . $________

Total Liabilities . . . . $________

My (Our) Net Worth . . . . $________

(Total Assets Less Total Liabilities)

HOMEWORK CASE STUDY

PERSONAL FINANCIAL STATEMENT

Student Instructions: Read the following case study carefully before starting to fill in the blank Personal Financial Statement form. When you have completed reading, look through the form item by item. Then re-read the case problem and fill in the appropriate figures from the case study on the corresponding lines of the form. Some assets and liabilities may be taken directly from the case study and entered on the form. Others, however, may need to be added together, divided, subtracted, or multiplied before entering the correct figure on the form. A second set of questions asks you to make decisions about the main characters' readiness to go into business. To answer them, you should think about your reasons for deciding one way or the other.

* * * * * * * * * *

Eric Grossman is planning to open a shoe store in a new shopping center and wants to leave his present job in order to start his own new business. As manager of another shoe store in town, Eric has managed to save $1,475 in the past several years from his $800 take home salary each month. He also has a joint checking account with his wife, Amanda, which currently holds a balance of $756.53.

Eric, Amanda and their three small children live in a three bedroom house in a suburban, residential area. They paid $34,000 for the house; because of a gift from Eric's parents, they were able to make a $10,000 down payment to ensure that their monthly mortgage payments would be manageable. Through an arrangement with a credit unit, their remaining mortgage of $24,000 is at a low interest rate. Over the next ten years, they will actually pay $48,000 to cover the principal and interest on the original loan. This will be paid off at the rate of $400 per month, including property taxes. However, since they have only lived in the house for eight months, most of the mortgage payments have been applied toward payment of the interest on the loan; the balance of the principal (or the $24,000 actually borrowed) has not changed very much during the time they have lived there.

In addition to their monthly mortgage payment, the Grossmans pay a pro-rated monthly fuel bill of $55, a telephone bill of $15 and an electricity bill of $45. Eric also carries auto, health and life insurance which costs him a total of $70 per month. Gasoline and upkeep on their 1974 Buick is approximately $45 per month. The Buick, which is now fully paid for, has a "blue book" value of $650. The car is running well and the Grossmans are anxious to avoid buying a new one for several years.

Last year, Eric loaned $2,500 to Amanda's brother at 5% interest to start a cleaning service. The loan will fall due next month and Amanda's brother, who has done well in his new enterprise, has told them that he expects to pay off the debt in full at the time it falls due.

Eric and Amanda have carefully checked the possible locations that would be good for a shoe store. Eric can now obtain an option for a 5-year lease on his first choice for a location in the new shopping center; in order to take advantage of this opportunity, however, he must come to a decision within the next two weeks. He believes that the shopping center is an ideal location since there are no other shoe stores in the center and there are a number of clothing stores nearby. Because Eric has been in the shoe business for several years, he has contacted several shoe manufacturers who have offered to let him order his initial inventory on credit for 30 days after the store opens. He knows that he will need to hire at least one half-time employee who will earn approximately $400 per month. Amanda herself will not be able to work as a salesperson, since the cost of day care for the children would be prohibitive. She will, however, handle the books for the business since she has extensive experience in accounting and has recently done work of this type for her brother.

At the present time, Eric is not sure that it would be a wise decision to start his new business right now. Amanda has convinced him that he should prepare a personal financial statement to show the loan officer at the bank and that he should abide by the decision of the loan officer. If the loan officer decides that Eric is a good risk, he will leave his present business and start his own. If the loan officer refuses a loan, Eric will wait until he has more experience or money to invest in his own business.

Personal Financial Statement Form Questions:

1. What are the Grossmans' total cash assets, including that which they have saved and that which is currently in their checking account?

2. How much will Eric collect from his brother-in-law including the 5% interest, at the time of the loan repayment?

3 How much can Eric consider his car and his house as assets?

4 What do the Grossmans still owe money on? How much will:

   (a) their total mortgage amount to, including interest and principal but minus the down payment and the monthly payments made thus far?

   (b) their monthly bills amount to?

   (c) their monthly credit card payments amount to?

5. What are the Grossmans' total assets?

6 What are the Grossmans' total liabilities?

7. Eric will need to cover his personal expenses for two months before he can expect to draw a salary from his new business. Can he cover these expenses (rent, utilities, insurance, etc.) from his existing cash assets if his brother-in-law repays his loan on time?

8. What is the maximum amount of money that Eric will have to invest in the business (assets minus short-term liabilities for two months)?

9. What can Eric use as collateral to obtain a loan from the bank?

PERSONAL FINANCIAL STATEMENT

for applicant ERIC GROSSMAN

(Assets)

I (we) own the following:

Cash (checking and savings accounts) . . . . $__________

Money owed to me (us) . . . . $__________

Notes . . . . $__________

Stocks & Bonds . . . . $__________

Home and other real estate . . . . $__________

Equipment and tools . . . . $__________

Automobiles . . . . $__________

Other . . . . $__________

Total Assets . . . . $__________

(Liabilities).

I (we) owe the following:

Charge accounts and other bills payable . . . . $__________

Total payable on automobiles . . . . $__________

Real estate loans . . . . $__________

Other . . . . $__________

Total Liabilities . . . . $__________

My (Our) Net Worth . . . . $__________
(Total Assets Less Total Liabilities)

charge for depreciation is to write off the original cost of an asset (less expected salvage value) by equitably distributing charges against operations over its entire useful life.

ENTREPRENEUR - An innovator of a business enterprise who recognizes opportunities to introduce a new product, a new productive process, or an improved organization, and who raises the necessary money, assembles the factors of production, and organizes an operation to exploit the opportunity.

EQUITY - The monetary value of a property or business which exceeds the claims and/or liens against it by others.

EQUITY CAPITAL - The capital which the entrepreneur invests in the business; equity capital may be obtained from personal savings, community development grants and cash gifts. It is capital that does not have to be repaid.

INCOME STATEMENT - The record showing how much the business makes or loses during each year. It is important to save this document each year, as eventually the income statements over several years will serve as an excellent predictor of how the business will do in the future. (Also known as the PROFIT AND LOSS STATEMENT.)

MORTGAGE LOAN - A loan that is obtained to pay all or part of the costs required to buy or lease a building.

NET WORTH - The owner's equity in a given business represented by the excess of the total assets over the total amounts owing to outside creditors (total liabilities) at a given moment of time. Also, the net worth of an individual as determined by deducting the amount of all his or her personal liabilities from the total value of his or her personal assets.

OWNER CAPITAL - See equity capital

OWNER EQUITY - The amount of money left over when liabilities are subtracted from assets. It is the amount that may be considered the owners', rather than the business' or its creditors', money.

PARTNERSHIP A legal relationship created by the voluntary association of two or more persons to carry on as co-owners of a business for profit; a type of business organization in which two or more persons agree on the amount of their contributions (capital and effort) and on the distribution of profits, if any.

PRO FORMA - A projection or estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of the business will turn out if certain assumptions are achieved.

PROFIT - The excess of the selling price over all costs and expenses incurred in making the sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment, operation, and management of a given enterprise or undertaking.

SOLE PROPRIETORSHIP or PROPRIETORSHIP - A type of business organization in which one individual owns the business. Legally, the owner is the business and personal assets are typically exposed to liabilities of the business.

TAKEOVER - The acquisition of one company by another company.

TARGET MARKET - the specific individuals, distinguished by socio-economic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and/or services of a business.

TERM LOAN: See Current Liabilities.

WORKING CAPITAL, NET - The excess of current assets over current liabilities. These excess current assets are available for carrying on business operations.

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Decision Questions

1. From Eric's and Amanda's point of view, do you think that Eric should leave his present job to start his own new business now? Give reasons for your answer based on Eric's financial status, family situation, and his experience.

2. If Eric does decide to leave his present job now, how much of his total case assets, do you think he should put into the business? Should some be retained in his bank accounts? Explain your reasons.

3. If you were a bank loan officer, would you make a loan of $20,000 to Eric to start his new business? List the pros and cons.

PART C: PREPARING BUSINESS FORMS FOR A LOAN APPLICATION

C.1: INTRODUCTION

1. Ask the class to raise their hands if they have ever applied for a bank loan of any type or accompanied anyone else who was applying for a loan. (There should be few raised hands.)

2. Point out that many people are not familiar with the procedures for obtaining a loan and may feel uncomfortable about the process. The purpose of this unit, in addition to teaching students the correct way to prepare for the application process and fill out forms, is to provide students with suggestions which will be useful in the actual application process. They include:

   - Arriving with all the information the loan officer will need to decide whether or not the applicant is a good risk for a business loan.

   - Evidence that the applicant has carefully thought out the details of the business.

   - Attitudinal factors on the part of the applicant which provide the loan officer with a further indication of the individual's ability to run a business enterprise successfully. These include:

     - Whether the applicant listens to the loan officer's advice. If the applicant does not appear to listen carefully or constructively, the loan officer may reason that he or she may not listen to the advice of an accountant or a lawyer either.

     - The extent to which the applicant appears to apply good reasoning and practicality to the solution of any problems which may arise in the course of the application interview. This will give the loan officer a fairly good idea about the way in which the applicant deals with problems or concerns of his or her business on a day-by-day basis.

     - The extent to which the applicant indicates a willingness to invest his or her own money in the business. This element is a good indicator of the degree of the applicant's confidence in the success of the new business.

     - The extent to which the applicant appears to be willing to put his or her energy into the new business. This is an indicator of the applicant's understanding of the level of effort usually required to start a new business and keep it operating well after it has begun.

3. Point out that just as the bank must judge the applicant, the applicant should also judge the bank. Some of the elements to look for in a bank are:

   - The size and reputation of the bank. Is it located conveniently? Is it well established in the community?

   - The manner in which the loan officer treats the applicant. Does the loan officer appear to be making judgments about the applicant on the basis of prejudices or preconceived notions? Does the loan officer seem to be trying sincerely to provide the applicant with good advice or to provide solutions for problems which may initially exist? Is the applicant treated in a businesslike and respectful manner?

   - The amount of interest that the bank charges. Although interest rates are fairly standard, there may be some variation among lending institutions. The loan officer may also suggest sources of capital which are lower in interest to supplement money borrowed through traditional commercial lending institutions.

   - The types and range of services which the bank provides in addition to making loans, i.e., checking accounts, financial counseling after the business has started, additional loans for emergencies or expanding the business, and payroll services.

4. Tell the class that the remainder of the unit will be concerned with understanding and learning how to complete the forms required to obtain a loan.

C.2 ACCOUNTANT GUEST SPEAKER

1. The purpose of this part of the unit is to familiarize students with the basic principles of accounting. For students with no accounting background, the speaker should be asked to provide a basic understanding. For those who have had at least some accounting, the session will serve as a refresher.

2. Well in advance of the date desired, contact an accountant or an accounting firm to find out who would be willing to visit the class to explain the principles of accounting. When a potential speaker has been contacted and has indicated a willingness to visit the class, explain to him or her exactly what the visit is intended to accomplish. Also explain the time limits and suggest that the speaker allow enough time for questions from the class.

3. A week before the speaker is to arrive, verify the date and the appointment. This will allow enough time to arrange for an alternate if a schedule conflict has arisen.

4. The day before the accountant's visit, have the class draw up a list of basic questions which they may want to ask after the speaker is finished. These might include:

    - How long should financial records be kept for tax purposes?
    - What types of forms should be kept for tax purposes?
    - What are some legitimate tax deductions for different forms of business?
    - When do required audits take place and for what reasons?
    - What types of records should be kept for audits?
    - What are the financial benefits of incorporation?

C.3: PREPARING A BUSINESS DESCRIPTION

1. Tell the class that the loan officer will want to know exactly what kind of business the entrepreneur intends to start and how the business is to be run. This basic information may influence whether or not the loan is granted. For example, a loan officer may be unwilling to provide a loan to start an auto repair shop when the town already has twenty similar businesses which are not doing well. On the other hand, a good loan officer may also suggest that you re-evaluate your choice of a location or a business and present alternatives.

   In addition, and of great importance, the business description will indicate the extent to which the entrepreneur has planned each step of going into business. The business description should tell the loan officer:

   a. What the business is to be.

   b. What market you intend to serve, the size of your market, and the share that you expect to attract.

   c. Why you believe that you can serve that market better than your competitors (or why you believe that you have no competition for your particular goods or service).

   d. Why you have selected your particular location for your new business.

   e. What your management plans are.

   f. Why you need to secure a loan to begin your business.

   These points are intended as guidelines and each student will want to vary them somewhat. The business description must be written clearly and simply. Remind the students that, as a rule, if they cannot describe the idea clearly and simply, they have not thought it through and the loan officer is likely to refuse a loan because of careless planning.

2. Hand the students a sample business description. Allow them time to read it through.

3. Ask students to choose a business in which they are individually interested. Tell students to write a description of the business in as much detail as possible.

Sample Business Description

The next step in packaging your loan request is to prepare a written description of your business, or idea for a business.

Your description should include information regarding:

- Type of business
- Name of business
- Owner(s) and background(s)
- Product or service you make or sell
- Location of Business
- Other businesses which will be your competitors
- Who your customers will be and the market that exists for your product.
- Your suppliers and terms
- The number of employees you have or plan to hire--immediately and in six months.

I plan to open an auto parts store. Its name will be "Jim's Auto Supplies" and it will specialize in parts for foreign cars. I will be the sole owner of the store.

I plan to locate the store at 6677 Act Street where many car dealers are. At this address there is a store which I can lease for $200.00 per month on a 3 year lease. This store is 40' x 60', has ample space to house the inventory, will not require any remodeling, and has adequate parking space in front and rear.

There is a Johnson's Parts Store four blocks away which might be some competition, but they do not carry foreign car parts. In talking to car dealers and individuals in the Denver area, I have found a real need for this business.

I will have three employees, including myself, working in my store. I have found two mechanics with foreign car experience who have agreed to work for me. I plan to open the store on September 1st, if I can get this loan from the bank.

Adapted from "How to Apply for a Small Business Loan," United Bank of Denver; Denver, Colorado.

291

C.4: SOURCES AND APPLICATIONS OF CASH

1. Explain that the "sources and applications of cash" Form is simply intended to show the loan officer where the money to start the business will come from and how it will be spent.

2. Point out that there are two basic sources of cash for starting a business venture. These are:

   (1) Money that the entrepreneur has on hand (i.e., savings or assets which may be converted to cash such as stocks and bonds or property which may be sold). This is called Owner or Equity Capital.

   (2) Money which the entrepreneur must borrow from someone or from an institution. This is called Debt Capital. Debt capital is anything which must be repaid on a formal scheduled basis.

3. Tell the class that the loan officer will probably want to know how much of an investment the entrepreneur is willing or able to make in the business. Such an investment is a clue to the individual's confidence in his or her ability to succeed in the new business. Of course, it also reduces the total amount which must be borrowed to start the business and thus saves the borrower interest costs.

4. Ask the class to identify some sources of debt capital. These may include:

   - credit unions
   - savings and loan institutions
   - commercial banks
   - the Small Business Administration
   - friends or relatives who will either lend money outright or who wish to buy shares of the business
   - insurance companies

5. Discuss each of the possible sources with respect to differences in interest rates, payment schedules, and long term association with investors. For example, commercial banks generally charge higher interest rates but provide more services than credit unions; the SBA frequently requires a loan applicant to provide considerable collateral to obtain a loan; savings and loan institutions are legally prohibited from granting business loans, although a person may obtain a short term personal loan and use it to start a business.

6. Explain the term "applications of cash." "Applications" refers to how the start-up money will be spent. These expenditures include initial deposits or payments which must be made for property or equipment, renovation or decoration to property, purchase of equipment required to operate the business, consumable supplies and initial stock inventories which are not bought on credit. Some of these applications will be direct expenditures, such as funds spent for renovation or decoration and consumable supplies. Other applications, however, may be considered to be investments which simply convert capital from a cash form to property. For example, the purchase of an oven for a bakery transforms a cash asset into a property asset which may, if necessary, be resold for cash.

7. Tell the class that applications of cash will necessarily have to be estimated, based on what you know that you will need to start the business and the current market value of each item that must be purchased.

8. Hand out the in-class case study, "Sources and Applications of Cash" and the Worksheet. Read through the problem and the form in class and work through the problem with the students.

   Answers to the in-class case study:

   1. $650.
   2. $300.
   3. $950.
   4. $120.
   5. $1,000 for rebuilding and installation and $900 for barber chairs, for a total of $1,900.
   6. $40, or 4 weeks x $10 per advertisement.
   7. $75.
   8. The barber chairs, the sink and dryers, and the barbering tools owned by the brothers.
   9. The total amount needed ($2,140) less the amount invested ($950) will require them to obtain the balance ($1,190) from the loan.

9. Distribute the homework case study and the blank "Sources and Applications of Cash" Worksheet, to be done outside of class.

Answers to the homework case study:

1. Lucy's owner equity consists of $5,000 in her savings account.
2. She will need a total of $21,500 to expand her business.
3. The debt capital will amount to $16,500.
4. She will spend $18,000 on automobiles.
5. Her direct labor costs will amount to $3,500 in the first month.
6. She will save $720.

IN-CLASS CASE STUDY
SOURCES AND APPLICATIONS OF CASH

After years working as barbers in separate cities, brothers Doug and Peter Palmer have decided to open their own barbershop in the town in which they grew up. They have found a vacant building, formerly a drug store, which appears to be an ideal size and location for the new business. They are planning to spend $10 a week for advertisement in the weekly town paper to attract new customers, since they can reach a large number of readers relatively cheaply this way.

The former drug store will need some refurbishing and the installation of hairdresser sinks and hair dryers. Pete has chosen a contractor who estimates that he can do the entire job for $1,000. The brothers will also need two barber chairs, each of which will run $450. They will not need any additional barbering equipment such as shears and razors since both have a large supply from years past. They will, however, need to purchase consumable supplies, such as shampoo and hair conditioner from a wholesaler who does not extend credit to new customers. Therefore, they will need at least $75 for supplies to start the business. They will also need $120 for the first month's rent.

Doug has saved $500 which he expects to invest in the business. Pete has only $150 to invest at this time, but his wife would like to invest $300 of her own money in the business.

The brothers plan to obtain a business loan for the balance of capital needed to begin their business. They will go to a local savings and loan bank to apply for the loan.

Questions:

1. How much cash on hand can the brothers invest in their business?

2. How much can they obtain from additional investors?

3. What is the total amount of owner equity available to be invested in the business?

4. How much will be needed for the first month's rent?

5. How much will be needed to convert the former drug store into a barber shop?

6. How much will they need to spend for the first month's advertising in the weekly paper?

7. How much will they need to invest in consumable supplies?

8. Which of these expenditures will continue to be assets of the business?

9. What is the total amount the Parker Brothers will need to open their shop, aside from what they have saved? What will their debt capital be?

WORKSHEET

SOURCES AND APPLICATIONS OF CASH

Date ____________________

Sources of Cash

Owner Investment (money not borrowed through commercial lending institution)

Cash on hand $________________

Gifts or personal loans ________________

Investment by others ________________

Community Development Grant ________________

Debt Capital

Bank business loan ________________

Personal loan ________________

Credit Union ________________

SBA loan ________________

Other loans ________________

Total Sources of Cash __________

Applications of Cash

Initial investment in building or property ________________

Repairs and renovations ________________

Initial inventory ________________

Initial advertising or promotion ________________

Equipment ________________

Other ________________

Total Applications of Cash __________

HOMEWORK CASE STUDY
SOURCES AND APPLICATIONS OF CASH

Student Instructions

Read through the case study carefully. Examine each part of the "Sources and Applications of Cash" form. Then re-read the case study, filling in the appropriate blanks with your answers. When the form has been completed, answer the questions following the story on the basis of knowledge of sound business practices.

Last year, Lucy Gaines started a delivery service which was designed to provide businesses with a quick, reliable transport of documents and materials to the airport and to pick up special orders for them at the airport. Her service has been outstandingly successful and she is planning to expand the size of the business. She wants to purchase three more cars, hire additional drivers, and subscribe to a 24-hour answering service that will relay requests for service all day and night.

At the present time, Lucy has a station wagon which has served as the business' only carrier. She plans to buy one more station wagon for approximately $7,000 and two small cars, suitable for small deliveries, which will be more economical to operate. Each of these will cost approximately $5,500. She will also need to cover payroll for five new drivers who will be hired. Each will be paid a monthly salary of $700.

Lucy has $5,000 in her savings account, but she will need to borrow money for the major portion of her expenses. She wants, if possible, to pay cash for the new cars to avoid the 10% interest rate for payment on time. To do this, she will try to obtain a short-term 90 day loan at 6% for purchase of the cars and a 30 day loan at 5% to meet the first month's payroll. She will handle the operating expenses of the expanded business (i.e., gas, oil, minor repairs) out of a business emergency fund which she has maintained since the start of the business.

1. What are Lucy's sources of equity capital?
2. What is the total amount Lucy will need in the first month to expand her business, including both her equity capital and money she will borrow?
3. How much of the total amount will be debt equity?
4. How much will she spend on automobiles?

208

5, How much will be spent on direct labor costs in the first month (i.e., meeting the first month's payroll?

6, How much will Lucy save if she obtains an $18,000 loan at 6% rather than paying 10% interest?

Decision Questions

1. Do you think Lucy's plan to expand is realistic, based on her previous experience and the cash she has on hand? Justify your decision.

2. Do you think that the loan officer will grant her the two short term loans, based on her experience and equity capital? Justify your decision and list some of the factors which the loan officer may consider.

3. If you do not agree with Lucy's plan for expansion, describe what you would do if you were she.

WORKSHEET
SOURCES AND APPLICATIONS OF CASH

Date ______________________

Sources of Cash

Owner Investment (money not borrowed through commercial lending institution)

Cash on hand $______________________

Gifts or personal loans ______________________

Investment by others ______________________

Community Development Grant ______________________

Debt Capital

Bank business loan ______________________

Personal loan ______________________

Credit Union ______________________

SBA loan ______________________

Other loans ______________________

Total Sources of Cash ____________

Applications of Cash

Initial investment in building or property ______________________

Repairs and renovations ______________________

Initial inventory ______________________

Initial advertising or promotion ______________________

Equipment ______________________

Other ______________________

Total Applications of Cash ____________

300

C.5 PREPARING A BALANCE SHEET

1. Explain that a balance sheet is intended to show how the assets, liabilities, and net worth of a company are distributed at a given time. A balance sheet, in reality, may be used to show this distribution in three different ways:

   (a) A start-up balance sheet would list the assets, liabilities, and capital that represent the financial position of the business on the day it opens. This is the type of balance sheet which should be prepared for the loan application package.

   (b) An actual balance sheet lists assets, liabilities, and capital or net worth of a company after it has been open for some time. This type of balance sheet is based on the actual distribution of funding elements.

   (c) A pro-forma (or projected) balance sheet may be developed based on plans for future business. This type of balance sheet is a best estimate of the funding elements of the business at a future time.

   A visual presentation of the three types of balance sheet would be:

(a) START-UP NOW	(b) ACTUAL AFTER THE BUSINESS OPENS	(c) PRO FORMA PLAN FOR FUTURE

2. Explain that the figures appearing on the balance sheet will reflect the items specified in Sources and Applications of Cash in the early days of the business, since many of the items listed as Applications will be transformed to non-cash assets. Examples of these are major equipment purchased, stock inventories, or property purchased. As time passes and the company generates more and more revenue and debts are repaid, the assets will reflect money that has been earned by the business rather than money borrowed for start-up. One way to think about assets is to consider them as company resources, whether money or things worth money.

3. Point out that the balance sheet will need two supporting documents:

   (1) A capital equipment list which details all the equipment owned by the company.

   (2) A detail balance sheet which specifies all the company's assets by type of asset and all the company's liabilities by type of liability.

Distribute copies of the "capital equipment list" and the "detail balance sheet." Ask the class to provide different examples under each category of equipment, assets and liabilities for different types of businesses. Point out the differences between the amount of money needed by businesses that require expensive equipment to start up and ones that don't. For example, a factory, a bakery, a restaurant, or a cotton mill will require heavier expenditures for equipment than retail businesses, office cleaning services, delivery services, or a tutorial service.

4. Point out that the three forms, the capital equipment list, the detail balance sheet, and the balance sheet are closely related to one another The development of the final balance sheet is a step-by-step process, beginning with the information required by the capital equipment list, adding the information required by the detail balance sheet, and finally ending with the aggregated totals required on the balance sheet.

5. Note that the balance sheet is the formal statement of the business' net worth. The capital equipment list and the detail balance sheet are simply working papers to help arrive at the final figures which appear on the balance sheet. The logic of the balance sheet is to document that the assets minus the liabilities and the owner equity--or what is left after subtracting liabilities from assets--do in fact balance.

6. Note that the categories presented on the balance sheet are standard and do not vary by type of business. The categories for the capital equipment and the detail balance sheet will vary to some extent, depending on the type of business. For example, some businesses may not use trucks or cars, as listed under fixed assets on the sample detail balance sheet. Some businesses may have different loan arrangements than those presented under "long term liabilities." The major categories, however, will remain the same regardless of differences in detail. For example, the nature of a long term loan may vary from one business to another, but the loan will always be listed under long term liabilities if it is to be repaid over time, regardless of the source of the loan.

7. Distribute the In-Class case study, "Balance Sheet," and a blank balance sheet form. Go through the terms that are used as entries on the form. These include:

    - Current assets: what the business now has or owns, even if it is not in hand or has not been paid for. Current assets may be expected to turn over quickly.

        -- Cash: the money in hand that the business has
        -- Accounts receivable: money owed to the business from credit extended
        -- Inventory: merchandise or items that the business has either bought or obtained on credit.

- Fixed assets: what the business has invested in as a relatively permanent fixture. Fixed assets may have been obtained on credit and are not yet paid for.

- Liabilities: what the business owes to others.

  -- Trade debt: the accounts payable, or the money the business owes to vendors for supplies or inventory
  -- Bank debt: the repayment of a bank loan.
  -- Other debt: ongoing operating expenses which do not fall into either of the above categories (i.e., rent, utilities, salaries or wages).

- Owner equity: the value of the assets after liabilities have been subtracted. Some owner equity may be in the form of cash; other types may be equipment, merchandise, property or anything else that may be converted to cash.

8. Read through the case study in class. Go through the blank form It may be useful to duplicate the balance sheet on the board. Work through the form, using the information contained in the study. Use the decision questions at the end of the case study as discussion points.

Answers to the In-Class Case study questions:

1. $2,500.
2. $1,900.
3. $1,900.
4. $6,300.
5. $ 440.
6. $6,740.
7. $ 200.
8. $4,000.
9. $4,200
10. $2,540.
11. $6,740.; the total assets. The owner equity and the liabilities should always balance or equal the total assets.

9. Distribute the balance sheet homework case study to be done outside of class.

   Answers to these questions are:

1. The cash assets of Greenhouse One are $3,300.

2. The other current and fixed assets of the business are:

Current assets:	
accounts receivable	0
inventory	
tropical plants	650
vases, pots, flowers, etc.	1,500
Total Current Assets	$2,150
Fixed assets:	
refrigeration unit	$3,500
glass display cases	1,800
used truck	2,000
optional: property improvement through renovation	400
Total Fixed Assets	$7,700

Cash:	3,300
Current:	2,150
Fixed:	7,700

3. Total Assets $13,250

4. The trade debt is $650

5. The bank debt is $8,000.

6. The total liabilities for the business are $8,650.

7. The duPont's equity is current

8. The total liabilities and equity for the business is

9. The total of the liabilities and equity equals the total assets.

$8,650 (liability) + 4,500 (equity) = $13,450 (assets)

SAMPLE CAPITAL EQUIPMENT LIST I

Lincoln Inn Restaurant

Major Equipment and Accessories	Current Market Value
1 Kenmore oven	$4,500
1 Microwave oven	2,000
1 Westinghouse 8-burner stove	2,000
2 Salton hot plate tables @ $500 each	1,000
1 Bendix standing freezer	700
1 General Electric air conditioner 50,000 BTUs	6,000
1 laminated counter and cabinets	7,000
45 counter chairs @ $40 each	1,800
20 tables @ $140 each	2,800
80 dining style chairs @ $26 each	2,080
Total	$29,880

Other Equipment and Fixed Supplies	
400 white linen napkins	400
60 linen table clothes	180
1000 drinking glasses @ $25 per 100	250
Silverware and china	2,000
Total	$2,830
Grand Total	$32,710

SAMPLE CAPITAL EQUIPMENT LIST II

Murray's Cleaning Service

Major Equipment and Accessories	Current Market Value
1 PowerVac vacuum cleaner	$450
1 Roto floor polisher	75
1 used truck	1,500
Total	$2,025

SAMPLE DETAIL BALANCE SHEET

Murray's Cleaning Service

ASSETS	
Cash	$ 562
Accounts receivable:	
(1) Skyline Motel	625
(2) Gillis Real Estate	212
(3) Dowel Inc.	400
Inventory, supplies	
(1) 100 qts. wax	60
(2) 25 lambs wool pads	30
(3) 50 gal. heavy duty cleaner	30
Total Assets	$1,919
LIABILITIES	
Trade debts:	
(1) Monroe Wholesale Inc.	65
(2) Edgar's Autobody Shop	150
Bank Debts:	
(1) First Savings and Loan	350
Total Liabilities	$565

Owner's Equity: Assets $1,919 less Liabilities $565 = $1,354

IN-CLASS CASE STUDY
BALANCE SHEET

Domenic Ferrara is considering the purchase of a leather shop which is being sold because the owner, Ned Felt, is moving out of state. Ned opened the craft and retail shop five years ago, with an initial investment of $1,000. Last year he obtained a $5,000 loan to expand the business in a different location. Now, in addition to his workshop and store, he distributes his leather products to major retail outlets throughout the state.

At the present time, Ned's company has $2,500 in a corporate account. He is owed $1,500 by credit customers (payment date uncertain) and a major retail chain will pay their $400 bill at the end of the week. Ned also has $600 worth of goods at his shop and in stores across town, and another $1,300 worth of raw materials, such as leather, hardware, and thread in his storeroom. He also has a machine for sewing leather and a cutting tool, worth $350 and $90 respectively.

Ned has repaid $1,000 of last year's business expansion loan and would expect Domenic to assuume the rest of the debt if he buys the business. He has not paid for $200 of the raw materials which he has on hand and does not expect to repay for some time since his creditors are not pressing; Domenic would also be expected to assume this debt.

Case Problem Questions

1. How much cash on hand does the business have at this time?

2. What are the company's accounts receivable?

3. What is the total worth of Domenic's inventory, including raw materials and finished products in the shop?

4. What are the company's total current assets?

5. What are the company's fixed assets worth?

6. What are the company's total assets, including current and fixed?

7. What is Domenic's trade debt?

8. What is his remaining bank debt?

9. What are his total current liabilities?

10. What is Domenic's equity (or what is left over after subtracting the liabilities from the assets)?

11. If the liabilities and the owner equity, above, are added together, what is the total? What is the total equal to?

WORKSHEET
BALANCE SHEET

Date ______________________

Assets

Current Assets

Cash $ ____________________

Accounts Receivable $ ______

Inventory $ _______________

Total Current Assets $ _________

Fixed Assets

Property $ ________________

Equipment $ _______________

Total Fixed Assets $ _________

TOTAL ASSETS $ ______________

Liabilities

Trade Debt $ ________________

Bank Debt $ ________________

Other Debt $ ________________

Total Liabilities $ ___________

Owner's Equity $ _____________

TOTAL LIABILITIES AND
OWNER'S EQUITY $ _____________

HOMEWORK CASE STUDY
BALANCE SHEET

Instructions

Read the case study carefully. Review the blank balance sheet form. Work through the case study, entering the appropriate figures in each space. Answer the questions following the case problem.

* * * * * * * * * * * * * *

Ed and Christine duPont plan to open their florist shop, Greenhouse One, next week. To supplement their own $3,000 investment in the business, they have obtained an SBA loan for $8,000 to cover their initial start-up costs. The start-up capital has been spent on: a $400 remodeling job which has made the building more convenient for a florist shop; $3,500 for a glass-front refrigeration unit to keep flowers fresh; $2,000 for a used delivery truck; and $1,800 for a glass case to display the flower arrangements that will be available. Of the remaining $3,300, $1,500 has been reserved for initial inventory such as pots, vases, plants and flowers. Everything else will be maintained for emergencies and ongoing expenses.

The duPonts plan to repay half of the original SBA loan by the end of the first year. This is based on their expectation of taking in an average of $2,000 each month of the business' first year. In addition to walk-in customers, business clients will also be served: the duPonts have already obtained an agreement with a large hotel for supplying arrangements for specific occasions. The duPonts have based their estimate of business volume by asking other florists about their first year's experience.

Ed has arranged with one supplier for an immediate delivery of tropical plants to coincide with the opening of the shop. The supplier has offered to let the duPonts have the merchandise on credit, so even before the business has opened, the shop has a trade debt of $650 for the tropical plants. Since Ed and Christine have invested everything they have in the business, they are anxious that the business be a success. Ed has prepared a balance sheet to determine exactly where the business stands financially at the time the shop opens.

Homework Questions:

1. What are the cash assets of Greenhouse One?
2. What are other current and fixed assets of the business? List each one by type of asset.
3. What are the total assets of the business?
4. What is the duPonts' trade debt at the present time?
5. What is the bank debt before the business has started?
6. What are the total liabilities for the business?
7. What is the duPonts' equity in Greenhouse One at the time of its opening?
8. What are the total equity and liabilities for the business?
9. How does the total of equity and liabilities compare with the total assets for the business?

Decision Questions:

1. Based on what you understand about credit and cash transactions, do you think it was wise of Ed to take advantage of the supplier's offer of credit? Explain why you do or do not agree with his decision.

2. Does the duPonts' use of their initial start-up capital seem sensible to you? Do any of their expenditures appear to be very heavy for a starting business?

WORKSHEET
BALANCE SHEET

Date ____________________

Assets

Current Assets

Cash $ ____________________

Accounts Receivable $ ______

Inventory $ ______________

Total Current Assets $ __________

Fixed Assets

Property $ ______________

Equipment $ ______________

Total Fixed Assets $ __________

TOTAL ASSETS $ ________________

Liabilities

Trade Debt $ ______________

Bank Debt $ ______________

Other Debt $ ______________

Total Liabilities $ __________

Owner's Equity $ ______________

TOTAL LIABILITIES AND
OWNER'S EQUITY $ ______________

C.6. INCOME STATEMENT AND PROJECTED INCOME STATEMENT

1. Explain that the income statement is intended to show how much a business makes or loses during each year, or what the business' profits and losses were. It is an important document to save, because income statements show the direction the business is taking from year to year and thus serve as an excellent predictor of how the business will do in the future. For example, if the owner of an existing business wishes to expand or sell the business, the income statement would provide documentation about whether the business' profits had grown over time.

2. An income statement may be compared to the balance sheet in the following manner: the balance sheet is a record of the business' financial situation at a single point in time, while the income statement shows the financial situation over a period of time. A graphic illustration of this relationship can be shown by the diagram below.

Start-Up Balance Sheet (Still photo)

End of Year 1 Balance Sheet (Still photo)

Income statment
(a motion picture)

3. For purposes of obtaining a loan, the applicant will use the income statment format to project what the business will earn or lose in the first year of business. This is called a projected income statment. The only real difference is that an income statment shows sales, operating expenses, profits or losses for several years of an existing business, while a projected income statement shows each of these elements for the first month or so of the new business and for the entire first year. This breakdown will help the new businessperson see how start-up costs will affect profits or losses at the beginning of the business should begin to make a profit.

4. Distribute the samples of an income statement and a projected income statement to show students the difference between the two forms. Note that the differences are:

   (a) The projected income statement will be based on best estimates which result from research (i.e., talking to others in the business and to small business consultants) and from planning. The income statement will be based on real dollar profits and expenses which accrue during the years of the business.

(b) The time frame for the projected income statement is one year, broken down by month. This is to help the starting businessperson to analyze projected profits and expenses by small time segments, which should result in a more reliable estimate for the first year. The income statement, on the other hand, will provide an indication of change between business years.

5. Distribute the in-class projected income statement case study and a blank projected income statement form to the class. Read through the problem. Fill in the form with the assistance of the class, using the questions following the case study as a guide

Answers to the in-class case study:

- For sales:

  1. $100 per month charge X 20 customers = $2,000.
  2. $100 charge X 30 customers = $3,000.
  3. $35,000.

- For cost of goods sold:

  4. $10 cost X 20 customers = $200
  5. $10 cost X 30 customers = $300
  6. 30 customers X $10 for goods X 11 months = $3,300; 20 customers X $10 goods X 1 month = $200; total for the year = $3,500.

- For gross profit:

  7. $1,800 and $2,700 respectively
  8. $31,500.

- For operating expenses:

  9. $3.50 per hour for 40 hours per month X 2 employees = $280; for 4 employees in the second month the expense will be $560; for the entire year salaries will be $6,440.

  10. $1,000 per month and $12,000 for the year.

  11. Insurance for the year is payable in the first month. The cost of insurance will appear in the first month's operating expenses ($100) and in the column for the entire year ($100)

12. $60 per month, or $720 per year.

13. $100 per month, or $1,200 per year.

14. Operating expenses excluding supplies, for the first month are projected to be $1,540, for the second month $1,720, and for the entire year $23,960.

- Determining Net Profit:

15. In the first month there will be a loss of $3,040; the second month will show a profit of $1,280; the total profit for the year will be $11,040.

16. Because of the heavy start-up expenses for supplies and insurance, which were payable when the business started.

6. Distribute the projected income statement homework case study and a blank form, to be done out of class. Answers:

    1. If Nancy's plans are accurate, she will make $1,200 in sales in the first month, $2,400 in sales in the second month, and $27,600 for the entire year.

    2. The cost of the chemical supplies sold will be $45 in the first month, $90 in the second month and $1,035 for the entire year.

    3. The gross profit for the first month will be $1,155, the second month, $2,310, and for the entire year, $26,565.

    4. In the first month Nancy will spend $24 on her helper's salary and the same amount for each month thereafter. The total expense for the salary will be $288.

    5. Nancy will draw $400 in salary per month, for an annual withdrawal of $4,800.

    6. The rent will cost $150 per month or a total of $1,800 for the entire year.

    7. Nancy will spend $1,000 for advertising the first month and nothing thereafter. The expenditure for advertising, therefore, will be $1,000 for the entire year.

    8. Nancy will spend $280 for supplies in the first month ($175 for a two-month supply of chemicals, $75 for the first of two brushes needed for the year, and $30 for postage and supplies). In the second month she will only expend $30 for postage and supplies, since she will still be using the chemicals and brush from the first month. For the entire year she will spend $1,560; 6 orders of chemicals at $175 each, 2 brushes at $75 each, and $30 for supplies and postage for each of the 12 months of the first year.

9. Nancy's tool operating expenses including all supplies, will be $1,854 for the first month, $6-4 for the second month, and $9,449 for the entire year.

10. In the first month, Nancy will show a loss of $654. The second month, however, she will show a profit of $1,706. For the entire year, she will show a profit of $18,152.

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From________________

To________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

IN-CLASS CASE STUDY

PROJECTED INCOME STATEMENT

Sam and Bess Greenberg want to start a landscape gardening service. They have determined that there is a market for this type of service in an upper income housing development nearby which is selling homes without landscaping. In fact, before starting the business they solicited considerable interest from the new homeowners and have obtained twenty firm contracts for the design and upkeep of gardens, which call for 12 equal payments over the year. They are confident, furthermore, that they can obtain ten new contracts in the second month of business, but they do not want to expand beyond that in their initial year of business. Sam and Bess are counting on the fact that the area's booming housing starts will support their business for many years to come.

The Greenbergs have $500 to invest in the business. They will spend the entire amount on a cultivator and a gas driven power mower which are needed to supply the services promised. They must therefore obtain a loan to cover their operating expenses until the business begins to show a profit. In order to determine what their potential profits and losses can be expected to be, they are preparing a projected income statement for the loan officer.

The major expenses for starting the business will be providing for their own income, meeting a payroll of part-time employees and especially the purchase of supplies, such as rakes, hoes, shovels, fertilizer, and topsoil. They plan to bill customers monthly at $75 per month for labor and an additional $25 per month for supplies which are used in each garden.

Bess' uncle has agreed to sell them the necessary supplies at cost for $3,500, providing that they will purchase enough to last them an entire year and they will pay cash for them. The Greenbergs have agreed to this proposition since it represents a considerable saving over other dealers' charges.

After some discussion, the Greenbergs have decided that they will need the part-time help of two other people to service the contracts which they already have. When the two additional contracts have been signed at the end of the first month, they will hire two more people for part-time work. They expect each employee to work 10 hours a week or 40 hours a month at an hourly rate of $3.50. The Greenbergs themselves will withdraw a total of $1,000 per month for salaries for both of them. Bess has contacted an accountant who will do much of the monthly record keeping after the business has started. She will pay her a monthly retainer of $100 for this service.

The Greenbergs will also obtain theft and vandalism insurance on their newly purchased heavy equipment for $100 a year, payable in advance. They are also allowing for a $6- a month repair and maintenance fund.

In preparing the projected income statement, Sam has decided to estimate profits and operating expenses for the first two months of the business and for the total year. These figures, he feels, will provide a good basis for estimating what their profits and losses may be early in the business and overall throughout the course of the first year.

PROJECTED INCOME STATEMENT QUESTIONS

For Sales:

1. If the Willows charge customers $75 per month for services and an additional $25 per month for supplies used, what will be their total sales for the first month?

2. What will be their sales for the second month of business?

3. What will be their total sales figure for the first year? ($35,000)

For costs of goods sold:

4. Assuming that the cost of the garden supplies is prorated evenly at $10 cost for each customer served, how much will the cost of the goods sold be in the first month of the business?

5. Using the same $10 cost per customer figure, how much will the cost of goods sold amount to in the second month of the business?

6. What will the cost of goods sold be for the entire first year, assuming 20 customers for the first month and 30 customers for the succeeding 11 months?

For gross profit:

7. What will be their gross profit for the first and second months?

8. What will their gross profit be for the entire year?

For operating expenses:

9. What will be the salaries and wages for the first month, the second month, and the entire year, excluding the Greenbergs' income?

10. What will the owners' salaries or withdrawals be for the first and second months and for the entire year?

11. What is the cost of the insurance and when is it payable?

12. How much maintenance and repair will be projected for the first and second months and the entire year?

13. What will be the monthly cost of the accountant? What will be the entire cost for the first year?

14. What are the total operating expenses excluding costs of supplies, for the first month, the second month, and for the first year?

Determining net profit:

15. What will be the net profit or loss for the first month, the second month, and the entire year?

16. Why will the business suffer a lost the first month of operation?

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From________________

To________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

HOMEWORK CASE STUDY
PROJECTED INCOME STATEMENT

Student Instructions: Read through the case study carefully. Review the projected income statement form. Using the figures presented in the problem, fill in the appropriate blanks on the form. Answer the questions following the case study. There are no absolutely correct or incorrect answers to the Decision Questions, but you must justify your response by explaining why you made your decision.

* * * * * * * * * *

Nancy Martin is planning to start a swimming pool cleaning service for outdoor residential pools. Although she can use the truck she currently owns for transportation and carrying the necessary equipment and supplies to each home, she wants to maintain a small office for a business mailing address and telephone answering service. She has found a room in a suburban area which will cost $150 per month to rent. Because Mancy's customers won't be coming into the office, it will be sufficient.

Nancy plans to hire her cousin as a part-time assistant at $3.00 an hour. She expects to need help for an eight hour day each Saturday. Nancy will withdraw $400 per month from the company for her own salary for the first year.

Nancy has already invested $350 in a pool vacuum cleaner and a leaf skimmer. She intends to purchase her major chemical supplies, such as chlorine and algaecide in 100 cases of gallon bottles. This supply will last (on an average) for two months. Each case will cost her $1.00. She will also need to purchase a tile scrubber for $75; this brush can be expected to last for 6 months. She figures that the cost of chemical supplies will be about $3.00 per pool each month. She will also need office supplies for billing and postage to send customers monthly bills for her services which will cost about $30.00 per month, total.

The charge to the customer will be $80 per month for a weekly visit for pool cleaning. Nancy has already got 15 pool owners interested in the service and she expects to double this number in the second month, through extensive advertising with leaflets and through the newspaper. She has planned to allow $1,000 for advertising in the first month.

Nancy is preparing to apply for an SBA loan and must therefore fill out a projected income statement for the first two months of business and for the entire year.

Homework Questions for Projected Income Statement:
(For all questions, figure 4 weeks per month.)

1. If Nancy's sales are as planned, (i.e., she begins with 15 contracts, expands to 30 by the second month, and maintains the 30 over the first year), what will her sales be for the first month, for the second month and for the entire year?

2. What will be the cost of the chemical supplies sold or used in the course of the first month, the second month, and the entire first year?

3. What will Nancy's gross profit be at the end of the first month, the second month, and at the end of the first year?

4. What will be the expenditure for Nancy's employee's salary in the first month, the second month, and over the course of the first year?

5. What will Nancy's withdrawal for salary amount to in the first and second months and for the first year?

6. What will be the rent for the first and second months and for the entire first year?

7. What will be the expenditure for advertising in the first month, and the second month, and for the entire year?

8. Considering all the supplies that Nancy must use to conduct her business, what will be the expenditure for chemicals for pool maintenance, the expenditures for office supplies and postage, and the expenditures for miscellaneous items such as brooms be for the first and second months and for the entire year?

9. What will be Nancy's total operating expenses, including supplies, for the first month, the second month, and for the entire year?

10. What will be her net profit or loss at the end of the first month, the second month, and for the entire year?

Decision questions:

1. Assuming that Nancy's expectations are realized at the end of the first year, what are her options for using some of the profit?

2. Do you think that it would be to Nancy's advantage to expand her business beyond the 30 customers she has originally planned for? Justify your response.

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From________________

To__________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

C.7: CASH FLOW STATEMENT

1. Explain that the cash flow statement is intended to show how money comes into the business and how it goes out (is spent). This statement is only concerned with CASH, not with property, other fixed assets, or credit. It is useful to show, in detail, where cash is coming into the business and how it is being spent. It essentially helps the business person to account for cash. It also will show quickly whether the money coming into the business is sufficient to cover expenses. For example, a businessperson may see that prices should be raised (or volume increased) or expenses cut for the business to survive.

2. Note that the cash flow statement is somewhat like a very detailed balance sheet, since it traces the direction of income versus out-flow of funds during the course of the business year. Explain that the cash flow statement differs from the income statement because it is not concerned with anything obtained on credit. For example, where merchandise has been bought on credit and subsequently sold, the revenue obtained by the sale appears on the cash flow statement but the debt incurred by the credit does not. When the business is billed for the merchandise, and the bill is paid, the amount of payment will appear on the cash flow statement as an expenditure for debts. For this reason, the business cannot depend on the cash flow statement alone, since it does not account for debts incurred through credit.

   For example, a small grocer may have a high (limit) of credit and obtain thousands of dollars worth of foodstuffs on credit. If the grocer does not pay his bills regularly, he or she may find that the cash flow statement shows a great deal of cash on hand which is misleading, since some of that cash is actually owed to the grocer's suppliers. If, on the basis of the cash flow statement, the grocer decided that he or she could afford to withdraw more cash for personal salary, expand the business, improve the property, etc., he or she may find that there is not enough cash left over to pay the creditors. The exception to this warning is that businesses which operate almost entirely on a cash basis can rely much more on the cash flow statement.

3. Point out that the categories for revenues and expenditures will vary somewhat depending on the type of business.

4. Indicate that a cash flow statement is prepared at monthly or quarterly intervals, depending on the type of business. Those with a high volume and many sources of revenue and expenditures would need to prepare one fairly often to keep track of where the money is coming from and where it is going.

5. Distribute the cash flow statement. Go over it carefully since it is somewhat lengthy and may initially look confusing to some students. When the form has been examined, distribute and read through the in-class

case study. With the assistance of the class, complete the cash flow statement, using the figures presented in the problem. The questions following the case problem may be used to generate class discussion.

Answers to the in-class study questions:

- Revenues

1. The $3,000 initial investment made by the Hobbits may be considered "cash on hand," since it is analogous to "cash on hand from previous accounting period."
2. There is none, since there have been no prior period sales.
3. $4,560.
4. $75 for the sale of the old generator.
5. $5,000 from the credit union.
6. An investment of $2,500 from Ed's parents.
7. $15,135.

- Expenses

8. Adding the first purchase of $3,200 and their more recent purchase of $2,600 a total of $5,800 has been spent for inventory in the current accounting period.
9. $4,000.
10. There are no fringe benefits.
11. $485.
12. The current expense for insurance is $550 at the new insurance rate. This is the total annual payment, however, and therefore will not appear in the next two accounting period cash flow statements, unless the Hobbits choose to increase their insurance again.
13. $56 plus $168 = $224.
14. $200 per month loan repayment plus $300 rent x 4 months in the accounting period = $2,000.
15. A total of $1,280
16. $228
17. $14,567

325

- Cash at end of period

  18. Subtracting expenses from cash available, the amount is $568.

6. Distribute the homework cash flow statement case study and the blank form for completion out of class. Answers:

   1. $568.

   2. $10,500.

   3. They received $175 from the sale of the glass display case.

   4. They received a $3,000 gift from Lesley's aunt.

   5. The total cash available in the second accounting period was $14,243.

   6. The total cost of inventory for the second accounting period was $4,100.

   7. The salary withdrawals were $900 per month x 4 months in the accounting period = $3,600.

   8. The cash register cost $300.

   9. The Hobbits' car insurance came to $285.

   10. The utilities were $56 for the telephone and $168 for light and heat; total: $224.

   11. They paid rent ($300), the bank debt ($200) and payments on repairs to the building ($25) in each of the months of the second accounting period. The total amount spent on principal and interest was $2,100.

   12. $192 was spent on transportation.

   13. The Hobbits' personal income tax amounted to $1,152.

   14. The sales tax was $525.

   15. The total expenditures for the second accounting period were $12,478.

   16. The total cash left at the end of the accounting period is $1,765.

   17. No, the car is a fixed asset (property); it is not cash until they sell it.

18. Improvement to property may be termed an asset, since it increases the value of whatever has been improved. But it is not cash and therefore is not revenue. The entire expense of renovation is not listed because some of it was obtained on credit. As the Hobbits pay their bill over time, it will then be put down as an expense; at present it is a delayed expense.

IN-CLASS CASE STUDY
CASH FLOW STATEMENT

Four months ago, Ed and Lesley Hobbit started the Hobbit's Hanger, a used clothing store which has attracted an increasing amount of business. Part of this increased volume is the suitability of the location--close to a college campus--and part is due to their effort to provide "quality" antique clothing at the lowest possible price for their customers. They are now preparing their first cash flow statement to see how well the business is doing, whether their pricing policy is sound, and if they can withdraw a bit more salary from the business each month.

Since their own investment capital amounted to only $3,000, Ed and Lesley obtained a $5,000 loan from a local credit union to start the business. They have agreed to repay the loan at $200 per month, including principal and interest. Ed's parents have also invested $2,500 in the business to help the young couple off to a secure start. On the advice of a friend who is an accountant, they have decided to operate on a "cash only" basis (money and checks, but not credit cards or charge accounts), at least for the first year, so they will know how the business stands financially on a day-to-day basis. This means that they pay cash for all purchases they make and they require their customers to pay cash for all merchandise bought. Therefore, since all the merchandise sold since the start of the business has been cash, the Hobbits know that their total sales since start-up have been $4,560.

When the Hobbits rented their small store at $300 per month, they were willing to spend large amounts of their limited start-up capital on redecoration. When they were cleaning the store, before opening the business, they found an old generator in the back room. No one needed it, so Ed sold it to a local contractor for $75. Last month, they felt the business was secure enough to invest at least some money in redecoration, so Lesley found several glass counters and display cases to show off the merchandise to its best advantage. These she bought for a total of $485 and she and Ed installed them by themselves.

A week ago, the Hobbits bought their first new inventory for $2,600 since the start of the business. None of the new inventory has yet been sold. The initial inventory has been purchased for $3,200. The most recent merchandise was a variety of antique clothing and jewelry which became available through an estate sale. To protect the new redecorations and recent qcquisition of inventory, they have increased the amount of insurance which they carry on the business. As a result, Ed recently paid an additional $200 to the initial annual insurance premium of $350.

The Hobbits do not currently feel that they need additional employees. They do, however, draw a single joint salary of $1,000 per month to meet their own living expenses. In fact, one reason they are anxious to prepare the cash flow statement is to see whether they are drawing too much salary or whether their cash reserve will justify an increase in their salary. At an income level of $500 apiece (or $1,000 together), they have paid $1,280 in federal taxes and state taxes. They must also account for payment of state sales taxes on the merchandise which they sell. Since their total sales amount to $4,560 to date, they are responsible for payment of $228 in sales taxes.

Upkeep on the shop has proven to be about as expected. Since the business has opened, the telephone bill has totaled $56.00 and the utilities, such as heat and light have amounted to $168.00 They hope that the cash flow statement will also tell them whether these costs are affordable.

In determining the cash received and expended during the first four months of the business, the Hobbits will be required to multiply some expenses by the number of months the accounting period covers (i.e., four months); others will be already totalled for the four-month period.

IN-CLASS EXERCISE

COMPLETING A CASH FLOW STATEMENT

Revenues

1. How much will "cash on hand from previous accounting period" amount to?

2. What is the cash received from prior period sales?

3. What does "cash received from current sales" amount to?

4. What does "cash received from assets sold" amount to?

5. What amount may be entered as "cash received from loans"? From what source?

6. How much cash has been received from other sources?

7. What is the total cash amount that has been available for the first accounting?

Expenses

8. How much did "new inventory purchased" cost the Hobbits?

9. For the first four months, what has been the total expense of the Hobbits' single salary?

10. Are the Hobbits allowing themselves any fringe benefits? If so, how much do they cost the business?

11. How much has been spent for new equipment?

12. What is the total amount spent for insurance during the current accounting period? Will this be a recurring expense for the next two accounting periods in the year?

13. What is the total amount spent for utilities and telephone thus far?

14. What is the total amount that the Hobbits have spent for payment of rent? Loan debts? The total of rent and loan debts?

15. How much must they pay in state and federal income taxes?

16. How much will their sales tax be on $4,560 worth of sales?

17. What are the total expenses for Hobbit's Hanger for the first accounting period?

Cash at end of period:

18. Given the cash available and the cash spent, what is the total amount of cash at the end of the first accounting period?

Discussion Questions:

1. Do you think the Hobbits were satisfied when they discovered that they had $568 in cash available for the next accounting period? Should they have had more?

2. Do you think the Hobbits should increase their salaries, based on the cash at the end of the period?

3. Looking at their expenditure for inventory and taking into account that the second purchase is not yet sold, do you think their pricing policy allows sufficient profit? If not, how should they change it? If so, what effect might an increase in prices have on their sales volume?

4. What business strategy would you select for the second accounting period to increase the amount of cash at the end of that period?

WORKSHEET

CASH FLOW STATEMENT

1. Revenues

   a. Cash on hand from previous accounting period $______
   b. Cash received from prior period sales ______
   c. Cash received from current sales ______
   d. Cash received from assets sold ______
   e. Cash received from loans ______
   f. Other cash received ______

   TOTAL CASH $______

2. Fixed Expenses

   a. Salaries/wages paid $______
   b. Fringe benefits paid ______
   c. Rent or mortgage ______
   d. Taxes:
      (1) Income ______
      (2) Property ______
      (3) Payroll ______
   e. Insurance ______
   f. Utilities:
      (1) Telephone ______
      (2) Electricity ______
      (3) Heat ______
   g. Principal and interest on debt ______
   h. Professional fees, i.e., legal and accounting ______

3. Variable Expenses

   i. New inventory purchased ______
   j. New equipment purchased ______
   k. Advertising ______
   l. Transportation
      (1) oil, gasoline ______
      (2) vehicle maintenance ______
      (3) parking, tolls, etc. ______
   m. Freight and postage ______
   n. Miscellaneous ______

   TOTAL EXPENSES ______

TOTAL REVENUES ______

TOTAL EXPENSES ______

TOTAL CASH AT END OF PERIOD ______

HOMEWORK CASE STUDY
CASH FLOW STATEMENT

Student Instructions: Read through the case problem carefully. Review the cash flow statement form. Re-read the problem and enter the correct figures on the appropriate lines, then answer the decision questions. Again, there are no correct or incorrect answers to these questions. They should be answered according to what you know of the principles of good business practice and what you know about the Hobbits from the two case problems about them.

* * * * * * *

Ed and Lesley Hobbit were disappointed after completing their first accounting period cash flow statement. Since the volume of sales had been brisk during the first four months of business, they had assumed that their profits would be considerably higher than the $568.00 they saw on the first cash flow statement. Re-evaluating their initial business strategy, they decided that they had probably invested too heavily in inventory during the first four months, especially since antique clothing is difficult to convert to cash through a traditional sale of the business' assets. They also decided that their pricing policy had not allowed enough profit margin for each item sold.

The Hobbits were particularly anxious about the scarcity of cash when they were unable to take advantage of an unusual offer to obtain some really valuable inventory at a remarkably low price. They felt, however, that the trend was not irreversible and proceeded to revise their pricing policy and plan for a more controlled acquisition of inventory.

At the end of the second accounting period, after a total of eight months of business, the Hobbits prepared their second cash flow statement for the past four months. In doing so, they found that the total cash sales--which still amount to all sales--came to $10,500. This, of course, increased the sales tax they must pay to $525. They also benefited from a gift of $3,000 from Lesley's aunt during that accounting period. In addition, they raised some badly needed cash by selling one of their glass display cases for $175.

Following their new buying strategy, they acquired new inventory in smaller batches than they had during the first accounting period: in all, they spent $4,100 on merchandise for the whole second period. In this way, they brought in about as much new merchandise each month as they sold during the previous month and so did not stockpile inventory. The Hobbits also decided that they should reduce their personal income to $900 per month for both of them, which then reduces their income taxes somewhat, to $1,152, for the four month period. To counter the reduction in income, however, they have decided to charge the costs of operating and maintaining their car as a business expense, since they use the car to attend antique auctions and sales and to transport merchandise. The car, which has been paid for, is worth $500 at present. The average amount spent on upkeep and fuel in the past accounting period was $192. The utilities have remained stable at $14 per month for telephone and $42 per month for light and heat over the past four months.

Although they have tried to cut expenses to the bone, the Hobbits have had a number of emergencies which have required unplanned or unwelcomed expenditures. During the past accounting period, the old cash register which had come with the building had to be replaced. The cost of a reconditioned cash register was $300. They were also forced to repair a large window and part of the flooring due to damage inflicted by a major storm. For the first time in their business careers, the Hobbits decided to have the work done on credit. The total bill for repairs amounted to $450 and the Hobbits have agreed to pay the contractor who did the work $25 a month until the work is paid for. The final blow was the arrival of the annual car insurance bill, which came to $285 due to an increase in insurance rates. The bill was paid last week. They have of course, continued to repay their original start-up loan at $200 a month and the rent of $300 a month.

As the Hobbits prepare their second cash flow statement they are quite anxious for an improved cash balance, since they feel that they have done everything within their power to increase the balance between expenditures and revenues. Depending on the outcome, they will decide whether or not to continue the business or close it.

HOMEWORK QUESTIONS FOR CASH FLOW STATEMENT

1. What was the Hobbits' cash on hand from the previous (i.e., their first) accounting period?

2. What cash did they receive from the second accounting period's sales?

3. What cash did they receive from assets sold?

4. What other cash did they receive?

5. What was the total amount of cash available for the second accounting period.

6. What was the total cost of new inventory purchased during the second accounting period?

7. What were the salary withdrawals made during the four-month period?

8. How much was spent on equipment?

9. How much did the Hobbits have to pay for insurance?

10. What was the cost of the utilities for the four months?

11. How much did they have to repay on the principal and interest for debts and for rent? What new debt did they incur?

12. What was the amount spent on transportation?

13. What was the amount spent on income taxes for the Hobbits' salary?

14. What was the total amount that had to be paid as sales tax on their merchandise?

15. What were the total expenditures for the second accounting period?

16. Considering the expenditures and the cash available, what is their total cash at the end of the accounting period?

17. Should the Hobbits' car be considered part of their total revenue? Explain.

18. Since the repairs to the building constitute property improvement, why can't these be listed as revenues? Why doesn't the entire cost of the job appear as an expense? In what case would it be listed as an expense?

Decision Questions:

1. Do you interpret the Hobbits' cash on hand at the end of the second period as an improvement over the cash on hand at the end of period one? Consider all the elements, not just the dollar amount difference between the two accounting period. Explain your decision.

2. Looking over the history of Hobbit's Hanger, what do you think contributed to their cash problems? Consider the size of their start-up capital, the nature and amount of fixed expenses, and their business strategy.

336

3. Do you think that the Hobbits should stay in business? If so, what can they do to improve their cash problems. Explain your answer.

4. If you were a loan officer in a bank, would you give the Hobbits a second loan to stabilize their business? Explain in detail.

337

WORKSHEET

CASH FLOW STATEMENT

1. **Revenues**

   a. Cash on hand from previous accounting period $ __________
   b. Cash received from prior period sales __________
   c. Cash received from current sales __________
   d. Cash received from assets sold __________
   e. Cash received from loans __________
   f. Other cash received __________

   TOTAL CASH $ __________

2. **Fixed Expenses**

   a. Salaries/wages paid $ __________
   b. Fringe benefits paid __________
   c. Rent or mortgage __________
   d. Taxes:
      (1) Income __________
      (2) Property __________
      (3) Payroll __________
   e. Insurance __________
   f. Utilities:
      (1) Telephone __________
      (2) Electricity __________
      (3) Heat __________
   g. Principal and interest on debt __________
   h. Professional fees, i.e., legal and accounting __________

3. **Variable Expenses**
   i. New inventory purchased __________
   j. New equipment purchased __________
   k. Advertising __________
   l. Transportation
      (1) oil, gasoline __________
      (2) vehicle maintenance __________
      (3) parking, tolls, etc. __________
   m. Freight and postage __________
   n. Miscellaneous __________

   TOTAL EXPENSES __________

TOTAL REVENUES __________

TOTAL EXPENSES __________

TOTAL CASH AT END OF PERIOD __________

C.8: LOAN OFFICER GUEST SPEAKER

Before the visit of the loan officer, assist the class in formulating questions to ask the loan officer. These questions may either be sent to the guest speaker ahead of time as a guideline for his or her presentation, or they may be used as a basis for a question and answer session at the time of the visit. The major areas for questioning should include:

- What is the single most important thing or characteristic that a loan officer looks for in an application for a small business loan?
- How important is it for a loan applicant to have capital or owner equity to invest in the new business?
- Are some types of businesses more likely than others to receive start-up loans? If so, is the difference a matter of the amount required for start-up or a matter of the likelihood that the business will succeed?
- What are some ways that an individual can obtain owner equity, assuming that he or she cannot save the money from existing income?
- What are some important considerations for the applicant when choosing a bank to do business with?
- How much does the applicant's personal credit rating affect a loan officer's decision to give him or her a small business loan?

UNIT X: EFFECTS OF BUSINESS DECISIONS

SUMMARY:

Careful planning, recordkeeping and analysis of financial and marketing information are critical to the success of the small business. These activities are of particular concern to the owner who wants to expand a business or who may be experiencing financial problems. By being aware of the details of the business, the entrepreneur may plan for expansion more easily or be warned of a pending crisis within the business.

Success determinants in small business include: (1) adequate capital resources, (2) persistence, (3) previous business experience, (4) managerial know-how, (5) personality traits such as determination, seriousness, enthusiasm, dedication, flexibility, imagination and responsibility, (6) realistic goals.

Failure is a result of irrational, erroneous and haphazard decision making. In particular, undercapitalization, managerial incompetence and personality defects doom an enterprise to failure.

STUDENT LEARNING OBJECTIVES:

- Identify the three most common causes of small business failure.
- List the requirements for success in small business.
- List the two primary ways in which a business is ended, and discuss the owner's and the creditors' options in ending a business.
- Define "business expansion," and distinguish among the three methods of expanding small businesses.
- Identify the fundamental questions to be considered in business expansion.
- Discuss the importance of planning in small business expansion, including the potential impact of expansion on current business operations.

TEACHING STRATEGIES:

Part A: Good and Bad Decisions: case study, small group exercise, information sheet.

Part B: Ending A Business: information sheet, lecture, discussion.

Part C: Expanding a Business: lecture, case study.

MATERIALS PREPARATION:

Part A: Duplicate "Gould's Specialties," "A Couple of Kids with a Good Idea," "The Mortality or Survival of Small Business"

Part B: Duplicate "Factors That Cause Business Failure."

Part C: Duplicate "To Expand or Not to Expand"

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

8. "Sara Greenfield." Sara Greenfield receives a paternalistic hearing from a potential customer who wants to examine her finances before he places a large order.

Other Mini-Problems:

10. "Ambition." Students are asked to evaluate a statement about ambition in terms of its application to entrepreneurship and to themselves.

39. "Nick Reggio." Students analyze the case of Nick Reggio, the owner of a camera store, who went bankrupt because he tried to push himself past the limits of his physical and emotional endurance.

41. "Tricycles." Students take the roles of a manufacturer of metal tricycles who is forced to go out of business and his or her employees.

44. "What Next?" Students are asked to think about how they would feel about opening a new business on the heels of the failure of their first business, a gift shop, after only eighteen months of operation.

REFERENCES:

Hoel, Robert F. *Marketing Now!* Glenview, Ill.: Scott, Foresman and Company, 1973.

Mayer, Kurt B. *The First Two Years: Problems of Small Firm Growth and Survival*, Washington, D.C.: Small Business Administration, 1961.

Metcalf, Wendell. *Starting and Managing a Small Business of Your Own* The Starting and Managing Series, Volume 1 (3rd Edition), Washington, D.C.: SBA, 1973.

PART A: GOOD AND BAD DECISIONS

1. Distribute "Gould's Specialties," a case study of a business in which bad decisions led to its failure.

2. Divide the class into small groups.

3. Instruct the groups to read the case study and work together to answer the questions at the end of the case study.

4. Discuss the students' responses to the questions.

- Question 1:

  What were Gould's goals for his store? How carefully thought out were they? Was "Gould's Specialties" a reasonable way to achieve them?

  Mr. Gould's goals were to escape from his factory job, to have a business that was unusual, and to make a comfortable living.

  They were not realistic in the sense that Gould's Specialties could not possibly support him, because a combination of external factors (location, parking problem, competition of the supermarket, limited product line, insufficient market) destined it to failure. This is an example of too little market research and its effect.

- Question 2:

  What personal characteristics and resources did Gould have which could have made a success of his business?

  Mr. Gould's intelligence, friendly personality, gregariousness, motivation, optimism, sound business practices, experience as a production manager and financial reserves increased his changes of success.

- Question 3:

  What were the factors (both personal and external) which caused Gould's Specialties to fail? Which factor was the most serious one?

  Personal factors--overoptimism, impatience, faulty decision making (e.g., there was no market for bulk cookies, bad location, little market research). You may want to read the following paragraphs aloud during the discussion. They are a direct quotation from Mr. Gould and present a clear and fair evaluation of reasons leading to closure of his business.

"Gould's Specialties failed for a combination of reasons, but, to put it bluntly, I lost my shirt. Not only was I not making money, I was losing it. As I look back, I can't figure how the dickens I saw a business in selling cookies in the first place. I was fed up with my other work and just wanted a business of my own. The place was for sale and it seemed to me that there was a market for bulk cookies. Now I know better.

"Everything was against me. It never paid from the beginning and just got worse. The location, parking problem, closing of the department store down the street, and competition of the supermarket were all factors in the failure. Mostly, however, a cookie specialty store just isn't exactly the best business in the world under any circumstances. People don't eat that many cookies...

"The location hurt me the most. If I had to look around for a place today for the same type of business, I could not find a worse place to open if I tried. All kinds of trucks and cars were always parked in front of the place, and there were too many other grocery stores with package cookies nearby...

"Another location might have enabled me to make some money, but I don't think it would have been enough. I realized early that the business would flop, so I began looking for something else.

"I was lucky to get out as soon as I did before I lost more money. The net profit figure I was trying to get from there was just never there to get."

"No amount of capital would really have helped in the long run because the cookie business is not good. You have to sell something besides cookies, but the place I had was too small to expand into other lines. Besides, the competition there in other lines such as groceries, was even greater than with cookies."

5. Ask students if Gould sees his failure as his fault or as due to "unlucky" circumstances. Which explanation is more truthful?

6. Discuss the causes of failure, referring to the case study when possible.

   In general, failure is a result of irrational, erroneous and haphazard decisions. These errors can be manifested in a number of ways: faulty location, disregard of competition, inadequate capital resources, over-indebtedness, inept merchandising policies, careless credit policies, organizational errors. In most instances, the eventual failure can be traced to a combination of such factors, sometimes compounded by deficiencies in the owner himself or herself, as expressed in lack of technical know-how, personality defects, or absence of sufficient perseverance in the face of difficulties.

It should not be assumed, however, that all factors are equally important. Overall evaluation suggests that some elements are more crucial than others:

- A comparison of causes for failure with reasons for success shows that certain conditions are more likely to have fatal effects on a business venture than others. Undercapitalization, managerial incompetence, and personality defects appear to doom an enterprise and cannot usually be compensated for by other assets.
- Although adequate capital and managerial competence are indispensable for survival, they are rarely sufficient in themselves to insure it. They must be supplemented by other factors, such as motivation, hard work, persistence, and flexibility.
- Finally, there are certain factors whose presence is highly desirable but whose absence is not necessarily fatal. In this category belong such features as a favorable location, good recordkeeping, good housekeeping, and advance planning for opening and developing the business. Unlike capital and competence, one or more of these factors can be lacking but can nevertheless be overcome by other elements like hard work, managerial know-how, and positive personality traits.

7. Distribute "A Couple of Kids With a Good Idea," a case study where good business decisions lead to success.

8. Allow students sufficient time to read the case study silently.

9. Discuss the Eisenbergs and their business, covering the following points:

    - What were their goals (personal and/or business)? Creative outlet, and challenge of building a business, primarily; profit goal is secondary.
    - Were their goals realistic (i.e., attainable, time-related, concrete and measurable)? Had they attained their goals?
    - In the eyes of the owners, bank, and community, is the business a success?
    - Did the frequent name and location changes hurt the company? How important is a business' name? Are businesses stereotyped by or because of their name?
    - How do goal-setting and success relate?
    - What resources and personal characteristics of the Eisenbergs helped them succeed in their business venture? Determination, originality, expertise, management skills, dedication, realistic expectations, drive and enthusiasm, and quality control.

- Contrast the Eisenbergs and their business with Gould and his store.

10. Discuss factors leading to success.

- Managerial know-how--one of the most important factors in business survival and success. Managerial know-how includes such aspects of the business operation as purchasing, inventory control, pricing, salesmanship, display of merchandise, advertising, credit policies, record keeping, control of overhead, and employment practices.

- Adequate capital resources--unless a business is adequately capitalized it cannot survive, but capital alone cannot insure its success. Other ingredients, such as previous business experience, managerial know-how, hard work, and persistence must also be present.

- previous business experience--work experience as an employee in the same line of business does not guarantee survival as a business owner. Previous experience as a business owner is helpful, particularly previous ownership of a business in the same line. Whether an owner had gained experience through ownership of one or more previous firms does not make any significant difference.

- persistence (stamina and determination)--new business enterprises need time to ascertain the potential volume of business and the financial returns which can be obtained. For many new firms, an initially satisfactory volume of business, generally associated with the novelty of the outlet, is followed by a slump in sales which may prove temporary. Such developments may easily have a depressing effect on the owners and lead them to consider closing their doors. Not having been educated to anticipate such a slump, some owners assume prematurely that their enterprises are failures and give up the struggle.

- realistic expectations--owners who have not been in business before are often unrealistic in their original expectations and goals and lose heart quickly.

- personality traits--managerial know-how is all the more valuable if it is supplemented by certain personality traits: determination and tenacity, seriousness and enthusiasm, dedication, flexibility, imagination, responsibility, and an enjoyment of challenging work.

11. Distribute "The Mortality or Survival of Small Business" for students to read as a summary of the discussion.

IN-CLASS CASE STUDY

GOULD'S SPECIALTIES

Mark Gould is 57 years old. A high school graduate, Gould appears quite intelligent. He dresses neatly and has a friendly personality. He has just gone out of the cookie business.

After having spent most of his adult life working for various jewelry manufacturing firms, mostly in a supervisory capacity, he decided he was unhappy with his job. He wasn't "getting anywhere" in the jewelry business. "I've done everything," he said about his career, "including production manager, and I could never relax. The older I got, the longer my hours were. I was doing everything, and I was under such tension it just ruined my nervous system. So I decided to do something where I could relax and make a little money for myself."

One day, he saw in the newspaper an ad about a retail cookie business for sale. The idea of running a cookie store appealed to him. He went out to see the store and talk to the present owners of the business, and within two days he signed the lease to rent the building. For capital, he used his savings.

"Gould's Specialties" was located on a heavily traveled street in a neighborhood of lower-income homes and apartments, light industry, and some stores. He thought the population density, coupled with the fact that many of the residents didn't have cars and therefore would find it difficult to do their shopping downtown, would contribute to his business success. He wasn't particularly worried about the fact that parking was available only at meters, or that delivery trucks had to park in front of his store, or that there was a small supermarket 200 yards up the road. He knew that the interior of his store was clean, neat, and well lit, that his prices were low (especially for cookies in bulk), and that a lot of people went past his store every day.

So Gould had a sign painted on his storefront (which was hard to see if you were driving past the store), spent $5,000 on new cookie containers, a cash register, and an impressive line of cookies, and opened for business.

He started losing money almost immediately, but knowing that it was important to wait out that initial slow period, he reluctantly dipped further into his savings. Open from 8:00 a.m. to 7:00 p.m. (to be available to the going-to-work crowd and the going-home crowd), on a good day he had about 30 customers who bought an average of $1.85 worth of merchandise. On a bad day, he had as few as 10 customers.

When his business didn't start to pick up after three months of operation, Gould began to do some thinking. "Come to think of it," he mused, "I had more customers before the department store down the street closed last month. And I had more customers before Lent started two weeks ago--I knew a lot of the neighborhood people were Catholic, but it never occurred to me that 40 days of Lent a year could be important." He also recalled watching his customers walk a block or more up the street to go back to their cars, and realized that the lack of convenient parking had to be a problem since relatively few customers walked from their homes to the store. Finally, he began to think that his entire inventory--cookies--had too narrow a focus, but he didn't have the room in his store to expand his line.

He spent some money on newspaper ads, but didn't see much improvement. He ran a sale, advertising a 30% discount on all purchses over $5.00. Although more customers came in, Gould lost more money with the big discount. He hired neighborhood kids to distribute circulars around the neighborhood advertising his store (and paid them in cookies), leading to some improvement, but not much. Even repainting the outside of his store from white to tan with dark brown spots (like a huge chocolate chip cookie) did not increase sales!

After a year in business, Mark Gould had gone through $20,000 of his savings for start-up expenses, inventory replacements, operating expenses, and money to live on in the meantime. He finally gave up, and has sold his business--at a loss.

QUESTIONS

1. What were Gould's goals for his store? How carefully thought out were they? Was "Gould's Specialties" a reasonable way to achieve them?

2. What personal characteristics and resources did Gould have which could have made a success of his business?

3. What were the factors (both personal and external) which caused "Gould's Specialties" to fail? Which factor was the most serious one?

4. a. What were some of Gould's sound business decisions?

   b. What were some of Gould's poor business decisions?

IN-CLASS CASE STUDY

A COUPLE OF KIDS WITH A GOOD IDEA

Five years ago, Hawaiians Lew and Judy Eisenberg began handmaking sandals in their Ala Wai Harbor houseboat and selling them to friends in order to supplement his Navy salary. Today, their burgeoning enterprise, Seafarer, Inc., turns out handmade sandals, handbags, clothing, and other leather goods by the carload and sells them in three Seafarer shops in Honolulu.

Blue Jeaned Craftsmen

Although the little company's growth has been the result of hard-working entrepreneurship, Seafarer is not exactly a run-of-the-mill business operation, and the Eisenbergs aren't exactly typical entrepreneurs. For one thing, after running their own company for four years, Lew and Judy Eisenberg are now only 25 and 26 years old. Most of their 30 employees are young too--bearded and blue-jeaned craftsmen who work leather to the sound of rock music, and clearly enjoy their work.

That is another unusual feature of the business. Like many young people, the Eisenbergs say they are more interested in the creative opportunities and the challenge of building the business than in profit, and their style of doing business bears out the claim. Their workshop has the informal, enthusiastic air of a hobbycraft class rather than a factory, and their prices are kept considerably lower than those of other leather shops.

Despite the casual atmosphere at Seafarer, on the management side it is well structured and systematic. This is the province of Fran Bush (Judy's father), a former store manager for a midwestern discount chain, who joined Seafarer two years ago. He has set up procedures in inventory control, merchandising, personnel, and other areas, and acts as business manager for the company.

Still another family member joined the company six months ago. Geoff Bush, formerly an account executive for a Honolulu advertising agency, has taken over handling of marketing and advertising for Seafarer, as well as management of the downtown store.

Salty Sandals

Lew and Judy remain the creative sparkplugs of Seafarer, generating new ideas for expanding the merchandise line and guiding development of the business. They made the transition from hobbyists to entrepreneurship at the urging of friends who had purchased those first experimental sandals. In 1967, Lew leased a tiny (77 square feet) store space in the International Marketplace and set up a shop, Salty Sandals, offering custom-made and ready-to-wear sandals.

Right from the beginning it was a winner, and the Eisenbergs found themselves working late into the night on their houseboat to keep up with the orders for footwear, wallets, and belts. When the boat could no longer contain the activity, they moved into a house. But neighbors were soon complaining about the hammering noises at night, and once again the workshop was moved--this time to another retail shop along with the workshop.

It was at about this time that the name Salty Sandals was dropped (people kept reading it "Sally Sandals," says Judy) and Seafarer was adopted. "We thought the new name was fitting," explains Lew, "because our business got started on a boat, because we both like the sea, and because much of the leather we use was the kind used in the rigging of old sailing ships."

The first big break came when Lew persuaded Liberty House to carry Seafarer bags and belts, featuring them in a special promotion in all of its stores. The orders began pouring in, and it was all Lew and Judy and their few hired craftsmen could do to keep up with the mushrooming demand.

Ala Moana Move

In 1969 Judy and Lew took a chance and applied for store space which was opening up in the Ala Moana Shopping Center, with the idea of keeping the tiny store as a workshop. As soon as their application went through, they called Fran Bush in Minneapolis and invited him to move to Honolulu as their full-time business manager. (Fran says it took him about two minutes to decide to quite his discount store job and to accept their offer!)

The new Ala Moana store generated so much business that the workshop had to be moved to larger quarters above a Chinese restaurant. It was conveniently close to the Ala Moana Center, but after six months the Eisenbergs had to concede that they and their employees were suffering a serious loss of efficiency during the morning hours when the restaurant was cooking onions and garlic for the evening meals.

As a result, last spring the workshop was moved to its present spacious quarters. At the entrance to the factory a small retail shop has been installed as a sales area for leather and leathercraft tools and hardware. Leathercraft hobbyists are rapidly growing in number, and Lew believes Seafarer's is the only shop in Hawaii which specializes in supplying this craft.

Quality Products

Judy believes that even though she and Lew no longer have time to do much of the actual leatherwork, manufacturing improvements they have worked out over the years (plus the fact that they can now afford to buy better leather) add up to a product which is even better than in the days when they were making everything themselves. Every item is still inspected by either Lew or Judy before it leaves the workshop, and in four years only two pieces of merchandise have been returned by unsatisfied customers, she says.

The Eisenbergs say it is this aspect of the business--the quality and imaginativeness of the products--coupled with the challenge of building their own company rather than the drive to boost profits, which motivates them. While their overhead and the cost of leather have risen steadily, prices on most of their products have not been raised in two years. Partly, this has been possible because of increased volume and efficiency, as well as the practice of using bits of leather once discarded as scrap in the small items which have been added to the line. But in a significant way, pricing at Seafarer reflects the Eisenbergs' carefree approach to the business. Says Lew, "We figure we're making a fair enough profit, so why raise prices?"

Nevertheless, the business is growing. Good management coupled with the creative drive of Lew and Judy pushed the little business from a gross in 1970 of $100,000 to $400,000 in 1971. With an additional store and a stronger advertising effort, the volume is expected to pass half a million dollars this year.

It would be wrong to say that success has come easily to Judy and Lew Eisenberg. They work hard--so hard, in fact, that there has been little time in their lives for anything but the leather business since their high school courtship ended in marriage five years ago. But fascination with beautiful leather, with design, and with the challenge of accomplishing the very difficult have been the prime motivators for them.

Success has been a bonus.

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INFORMATION SHEET

THE MORTALITY OR SURVIVAL OF SMALL BUSINESS

For all its appeal, entrepreneurship is a difficult career path. It appears that many small business owners do not possess the required money and skills. The typical firm does not survive more than two years. In 1971, for example, most of the businesses that closed down were small. A detailed study of small businesses, conducted for the Small Business Administration in 1961, showed that half of the businesses studied ceased operations within the first two years.* Among the primary reasons for failure were the following:

- Poor locations were chosen. Location is particularly important for some service (e.g., hotels) and most retail sales businesses.
- Disregard of competition. For example, some of the grocery stores in the study opened in areas which already had many successful grocery stores.
- Too little money (under-capitalization). The businesses did not have enough money to keep going until they established themselves with customers.
- Lack of general management know-how. Businesspersons did not know enough about how to run the business, such as financial planning and control, knowledge of the business itself, knowledge of personnel needs, and ability to analyze the nature of the business and its potential markets.

Businesses that survived and succeeded also showed certain characteristics. According to the study, these factors of success included:

- Persistence and preparation. The successful businessperson realized that they would not achieve their goals and profits immediately and were prepared, both psychologically and financially, to endure a year or more of losses.
- Ownership experience. Through previous experience in owning their own businesses, many successful owners had learned about the problems of starting a new venture, and had acquired the skills needed to operate one.
- Sufficient money. Sufficient money is required to begin the business on a firm footing and to survive the start-up period before sales pick up. This money often comes from personal savings.
- General managerial know-how. This involves having knowledge and ability in sales, advertising, control and planning in order to avoid the problems which plague the failures.

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* Kurk B. Mayer and Sidney Goldstein, The First Two Years: Small Firm Growth and Survival Problems. Washington, D.C.: Small Business Administration, 1961.

PART B: ENDING A BUSINESS

1. Distribute "Factors that Cause Business Failure" and discuss the many reasons why an entrepreneur may go out of business.

    a. It is time to retire and there is no one to continue the business.

    b. The owner wants to change the type of business that he or she is in. Some owners enjoy the challenge of setting up a new business, and are less interested in the day-to-day operations of a successful business. Other owners change businesses when they see new business opportunities that seem to promise advantages which their current business does not have.

    c. The owner no longer wants the responsibility of running a small business almost singlehandedly.

    d. The business is not doing well (there are declining profits or no profits).

    e. The entrepreneur owes so much to creditors (e.g., the Internal Revenue Service, banks, suppliers, family, friends) that it is impossible to continue the business.

    f. The entrepreneur is being sued by creditors for failing to pay debts and repay loans.

2. Explain that there are several ways to go out of business depending on the reasons for the business termination. The two major categories of business termination are:

    Voluntary termination: when the entrepreneur wants to retire or move on to another type of business, or when profits are not sufficient to provide a satisfactory living for the owner (and the employees).

    Involuntary termination: when the owner of the business cannot meet expenses and outstanding debts, the creditors may force a business termination. This is often called involuntary bankruptcy.

3. Explain that the entrepreneur's options for ending a business depend, to a large extent, on why the business is being terminated.

    a. When the entrepreneur is voluntarily ending the business, there are a number of ways that the business can be ended.

    b. When the business is being terminated for reasons beyond the control of the entrepreneur, the options for ending the business are fewer and the entrepreneur loses the right to decide among ways to end the business. These decisions will be made by the courts and the creditors.

4. Write on the board and discuss the options that the entrepreneur has available for voluntarily ending a business. Explain that the entrepreneur may combine two or more of these options.

   a. Sale of the business - the entrepreneur seeks a buyer for the business. The owner may advertise the business in a local or city-wide newspaper, let others know that the business is for sale by word-of-mouth, and/or place a notice in the store announcing the intent to sell.

   b. Professional liquidation - the entrepreneur may decide to sell the entire stock to a professional liquidation company. The professional liquidation company then holds a going-out-of-business sale, sometimes supplementing the store's stock with additional merchandise. The entrepreneur may or may not get a percentage of the final sales for the going-out-of-business sale, depending on the arrangement made at the time of purchase with the liquidation company.

   c. Corporate bankruptcy - when the business is going badly and the owner fears that it will be impossible to pay the outstanding debts of the business (e.g., taxes, loans, supplier debts), he or she can, but does not have to, declare corporate bankruptcy. Corporate bankruptcy is reserved only for those businesses which are legally corporations. The advantage of this alternative is that the creditors can only seize and liquidate business assets and property that was put up for loan collateral. They cannot touch the owner's private (non-business) property or assets.

5. Stress that the declaration of bankruptcy does not mean that the owner can never start another business. Although bankruptcy legally frees the entrepreneur from responsibility for repayment of debts associated with the failed business, he or she may decide to pay outstanding debts anyway when able. This shows good faith on the part of the entrepreneur and may be an important factor in reesatablishing good credit.

6. Clarify that bankruptcy laws are federal, not state, and they are defined in the Constitution. Bankruptcy is not intended to be a device for running away from bills, but rather to facilitate an orderly liquidation of a business in order to protect the creditors' investments as much as possible.

7. Whatever the method used for voluntarily ending a business, two kinds of preparation are essential:

   - Advance planning - the entrepreneur knows well in advance that he or she wants to end the business and consequently cuts back on product re-orders to deplete the stock that the business has to sell. This may be followed by a going-out-of-business sale, to mark the final days of the business.

- Legal and accounting assistance - seeing that the business is running into trouble because profits are not great enough to cover debts, the entrepreneur may hire a lawyer to discuss the situation with the creditors. If the business's credit has always been good and/or the owner is experiencing temporary difficulties, the lawyer may be able to explain the situation to creditors and to arrange for a delayed repayment plan that the entrepreneur can afford. In most cases this option is most feasible in the first stages of business difficulties when the owner has not yet been sued by any of the creditors for repayment.

8. Discuss the alternatives for terminating a business when the decision is involuntary.

   When the business has heavy debts and/or drastic losses in revenues and profits, the entrepreneur has few choices for ending the business. If a major creditors, e.g., the Internal Revenue Service or the bank, decides that it will no longer extend credit to the business, the owner must engage a lawyer who will handle all further negotiations with creditors and make the critical decisions about how the business will be ended.

   Stress that an involuntary business termination takes decision-making authority away from the entrepreneur, who must abide by the decisions made by the courts and the creditors. It is of vital importance to get legal help EARLY when financial trouble is first evident. In fact, under certain conditions, the lawyer may be able to avoid a business termination altogether, by convincing the creditors that the business problems are temporary or correctable. Creditors often try to find alternative ways for repayment of debt, since they rarely collect the full value of the debt if the business has to be ended.

9. Discuss the alternatives for ending a business involuntarily.

   a. By obtaining legal assistance early enough, the business owner's lawyer may be able to persuade creditors that the business is experiencing temporary or correctable problems. The lawyers for the creditors and the lawyer representing the ailing business will then work out a plan for an extension of the debt payment schedule. The plan must be approved by the lawyers representing both parties and will be monitored by the courts or the creditors' lawyers. In this case, the entrepreneur may be able to keep the business going, if the repayment plan is faithfully met.

   b. The creditors may choose to force the business into involuntary bankruptcy. This means that the court will order the business and all existing stocks, buildings, and equipment to be sold, either to another party or at auction. The lending institutions may also sieze any collateral that the entrepreneur put up for a secured loan. The revenue generated from such sales is divided among the various creditors. Lending institutions do not consider involuntary bankruptcy the best way to handle a business in trouble since they will often collect only part of the total money owed to them. Involuntary bankruptcy is considered a last resort by creditors.

10. Summarize. It is vital for the owner of a small business to keep a constant watch for signs of financial trouble in the business. It is earlier, more pleasant, and definitely more profitable to take care of these problems before rather than after they reach a critical stage. Even if the entrepreneur loses the business in the end, a voluntary termination is vastly preferable to an involuntary termination.

FACTORS THAT CAUSE BUSINESS FAILURE

PERSONAL FACTORS	INADEQUATE PLANNING	INADEQUATE FINANCING	OBSOLETE METHODS
Lack of business knowledge	Poor location planning	Use of working capital to purchase fixed assets	Poor expense controls
Unwillingness to accept advice	Failure to forsee major marketing opportunities	Not enough capital reserves to withstand slow business period	Poor inventory controls
Unwillingness to work long hours	Failure to plan properly for financial needs	Lack of funds to purchase adequate inventory	Poor Accounts Receivable controls
Content with things as they are	Failure to anticipate personnel requirements	Lack of sufficient funds to obtain best location	Poor Personnel policy
Excessive expenditures in good and bad economic periods	Inadequate advertising strategy and planning		Lack of modern equipment
Using operating funds for non income generating expenses			Poor cost records and pricing methods
Lack of economic knowledge about industry and region			

PART C: EXPANDING A BUSINESS

1. Define "Small Business Expansion." Expansion is the method by which a small business entrepreneur enlarges or increases the size or scale of the business operation, in order to increase revenues and profits.

   Explain to the class that there are three methods by which a small business can expand the size of its operation. Ask students to describe possible methods and write them on the board.

   a. Expand existing markets - the entrepreneur can expand the business operation by increasing the volume of the product line currently offered. For example, a retail business owner selling fruit may want to double the amount of the fruit for sale; a service which cleans offices may want to add 10 new customers.

   b. Offer new product lines - the entrepreneur can offer new products to the customers. For example, the owner of a hot dog stand may decide to offer pizza in addition to hot dogs.

   c. Open a new unit - in the third method of expansion, the small business owner may decide to expand the business by opening a branch store or a second production facility, or by moving the business to a larger location.

2. Explain to the class that the decision to expand a small business is based on certain trends in the business operations (sales, productivity, etc.). Start the discussion by asking the class to propose some reasons why an entrepreneur may decide to expand a small business.

3. Small businesses expand primarily because of increased sales or revenue (meaning greater consumer demand for a product or service). Increased demand usually comes from one of two sources.

   a. New Markets. For example, a housing development may open in the neighborhood where a retail store exists. Because of the increase in the population in that area, the small business entrepreneur may want to expand the current business operation to meet the greater demand for the store's goods and products.

b. Availability of new products or new technology. This cause of expansion is really several causes. Perhaps the owner of a ceramic factory develops a more efficient way of manufacturing beer mugs. Since labor costs are reduced, the price is reduced, and more orders are received. The entrepreneur would want to expand to meet all the new orders. This is expansion caused by new technology.

Perhaps the supplier of an appliance store tells the store's owner that a recently developed appliance has come on the market which can wash linoleum floors automatically. This is expansion caused by new products.

Finally, there is expansion caused by changes in the buying behavior of the existing market. Perhaps many residents in a neighborhood have just discovered the pleasures of jogging. The owner of a sportswear store would be wise to add jogging outfits to the inventory.

4. Explain to the class the importance of careful planning before expanding a small business. Emphasize the following in planning for business expansion:

   a. Failure to make careful plans for expansion can often result in the failure of a previously successful business.

   b. If the entrepreneur does not plan for future operations and future needs, he or she will not be able to recognize and therefore to take advantage of opportunities for future growth.

   c. Successful competitors will be planning for the future. If the entrepreneur wants to enjoy future success, he or she must be able to plan for and adjust to changes in the market and consumer demand. In business you want to do more than "keep up with the Joneses."

5. The best way to plan for an expansion of business is to follow the same steps that were followed in starting up the business originally. That is (a) analyze the potential market; (b) analyze what changes in your current business operation will be necessary for the expansion; and (c) analyze the existing competition. Point out to the students that in following each of the above three steps, certain questions should be asked. The answers to those questions will determine the wisdom of the expansion, and to a large extent its success.

   a. Questions to analyze the potential market

      - What is the market under consideration? Is it a different target market, or a different segment of the same market?

- What are the sales trends in that market? Are they high enough to support your expansion?

- What is the size of the potential market? Or, what is the size of the demand?

- What share of that market do you currently have?

- What is the growth potential of that market?

- Does your share of the market increase with market growth, or does it remain the same, or drop?

- Who makes up the potential market (who are the consumers)? What are their demographic and product use characteristics?

- How do these patterns and characteristics affect your costs in expanding?

b. Questions to analyze the current business operations

- What is the magnitude of your expansion? Or, how much do you want to expand your business? Do you just want to increase the inventory of your business, or to expand to an additional location or to add a new inventory?

- Do you want to switch completely to a new market, or maintain the old market with a mix of the new?

- What will the new expansion require in terms of changes in your current operations? How will each of the following be affected? What are the costs for each?

    1. size of the new inventory or production
    2. number of personnel required
    3. training of personnel
    4. space required (including storage)
    5. production capacity
    6. administration or management of the business
    7. investment changes (additional capital)

- What financial, employee and technical resources do you have to support the expansion?

c. Questions to analyze the competition

- What are your competitors doing? What are their financial, personnel, and production resources? What share do they have of the new market?

- What would be the reaction of your competitors to your entry into the market? (Could there be price wars?)

- Can you afford the competition, and the competition's reaction to your entry? (If not, you don't belong in that market.)

d. Summarize the points presented thus far by pointing out to the students that the entrepreneur's decision to expand, the method of expansion, and the extent of expansion should be based upon:

1. an analysis of the potential market;
2. an analysis of the current business operations;
3. an analysis of the changes and costs required in the expansion;
4. an analysis of the competition's resources.

6. Distribute copies of "To Expand or Not to Expand" to each member of the class. Read the information aloud, as the class reads the sheet silently.

7. Encourage discussion of the problem situation by asking the following questions.

a. Under these conditions, would you consider expanding this business?

b. What reasons might you have for expanding?

c. What methods of expansion would you consider?

d. How much could you, or would you expand?

e. What information would you need to decide whether or not it was profitable to expand?

f. What factors would make you decide to expand? and how to expand?

g. What factors would make you decide not to expand?

h. How could the different methods of expansion affect your current business operation?

IN-CLASS CASE STUDY

TO EXPAND OR NOT TO EXPAND

You are the minority owner of a small restaurant located in a West Indian neighborhood in New York, composed primarily of apartment buildings. Your restaurant specializes in low-cost West Indian dishes. The restaurant itself is located on the corner of the intersection of two heavily traveled streets. There is public parking behind the restaurant and parking meters on both streets.

A vocational high school is located two blocks away in one direction, and there is a packaging plant with several hundred employees one block away in the other. Many of the students and employees are your customers for lunch, and neighborhood residents are most of your dinner customers.

The restaurant has 3,500 square feet. Two thousand square feet are used for the dining room, and 1,000 square feet are used for the kitchen (with cupboards for storage). Five hundred square feet are unused. The restaurant is a little crowded, but efficient.

During your first year of operations, business has been excellent. In fact, you are so busy that you have to reorder some of your food supplies every other day instead of twice a week as you used to do. You are probably so successful because there are no other restaurants in your price range within 10 blocks of your location. Currently, you have $10,000 in cash reserve, after an initial investment of $25,000. Congratulations! You are doing very well. Now you can consider expanding your business.

Recently, you read two newspaper advertisements which captured your interest. In one of them, the owner of a fast food stand was going out of business, and wanted to sell some of her food preparation equipment: a pizza oven, and a microwave radar range (used for quick heating of prepared foods). In the second ad, you learn that the small bookstore one mile away in a white neighborhood is closing, and that the 1,700 square feet of retail space it occupied are now for rent.

Although you had not previously considered expansion, you decide that this is too good an opportunity to pass up. Therefore you decide to investigate to find the most profitable way in which you can expand your small business.

GLOSSARY OF FINANCIAL TERMS

"ACID TEST" RATIO - Cash plus those other assets which can be immediately converted to cash should equal or exceed current liabilities. The formula used to determine the ratio is as follows:

$$\frac{\text{CASH plus RECEIVABLES (NET) plus MARKETABLE SECURITIES}}{\text{CURRENT LIABILITIES}}$$

The "acid test" ratio is one of the most important credit barometers used by lending institutions, as it indicates the ability of a business enterprise to meet its current obligations.

AGING RECEIVABLES - A scheduling of accounts receivable according to the length of time they have been outstanding. This shows which accounts are not being paid in a timely manner and may reveal any difficulty in collecting long-overdue receivables. This may also be an important indicator of developing cash flow problems.

AMORTIZATION - To liquidate on an installment basis; the process of gradually paying off a liability over a period of time, i.e., a mortgage is amortized by periodically paying off part of the face amount of the mortgage.

ASSETS - The valuable resources, or properties and property rights owned by an individual or business enterprise.

BALANCE SHEET - An itemized statement which lists the total assets and the total liabilities of a given business to portray its net worth at a given moment in time.

BREAK-EVEN ANALYSIS - A method used to determine the point at which the business will neither make a profit nor incur a loss. That point is expressed in either the total dollars of revenue exactly offset by total expenses (fixed and variable); or in total units of production, the cost of which exactly equals the income derived by their sale.

CAPITAL EQUIPMENT - Equipment which you use to manufacture a product, provide a service, or use to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or be consumed as you do business.

CASH FLOW - The actual movement of cash within a business: cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. Used to offer a better indication of the ability of a firm to meet its own obligations and to pay dividends than with the conventional net income figure.

COLLATERAL - Something of value given or held as a pledge that a debt or obligation will be fulfilled. A diamond or a house could be put up as collateral by a loan application. If the loan is not repaid, the lender (a bank, an individual, etc.) may seize the house or diamond to sell or to keep.

CORPORATION - A voluntary organization of persons, either actual individuals or legal entities, legally bound together to form a business enterprise; an artificial legal entity created by government grant and endowed with certain powers.

CURRENT ASSETS - Cash or other items that will normally be turned into cash within one year, and assets that will be used up in the operations of a firm within one year.

CURRENT LIABILITIES - Amounts owed that will ordinarily be paid by a firm within one year. Such items include accounts payable, wages payable, taxes payable, the current portion of a long-term debt, and interest and dividends payable.

CURRENT RATIO - A ratio of a firm's current assets to its current liabilities. The current ratio includes the value of inventories which have not yet been sold, so it is not the best evaluation of the current status of the firm. The "acid test" ratio, covering the most liquid of current assets, provides a better evaluation.

DEAL - A proposal for financing business creation or expansion; a series of transactions and preparation of documents in order to obtain funds for business expansion or creation.

DEBT CAPITAL - The part of the investment capital which must be borrowed from a bank, the Small Business Administration, or other formal lending institutions. The remaining portion of the investment capital is owner or equity capital.

DEPRECIATION - A reduction in the value of fixed assets. The most important causes of depreciation are wear and tear, the effect of the elements, and gradual obsolescence which makes it unprofitable to continue using some assets until they have been exhausted. The purpose of the bookkeeping

364